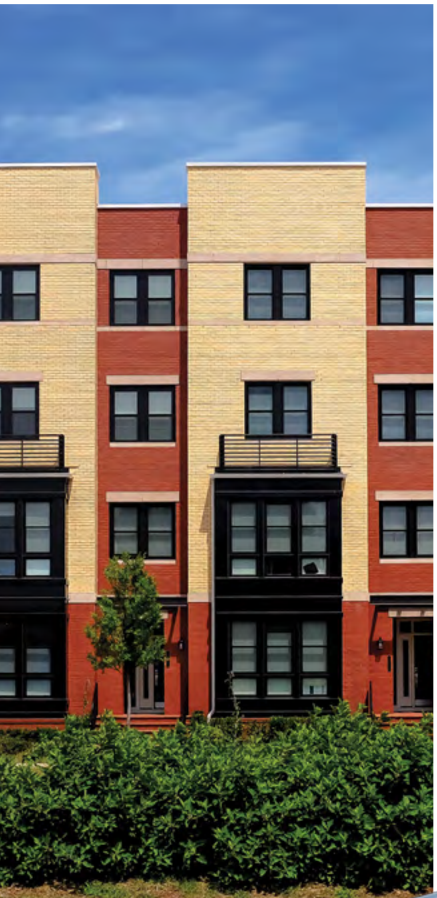

FY 2022 REPORT

PERFORMANCE & ACCOUNTABILITY

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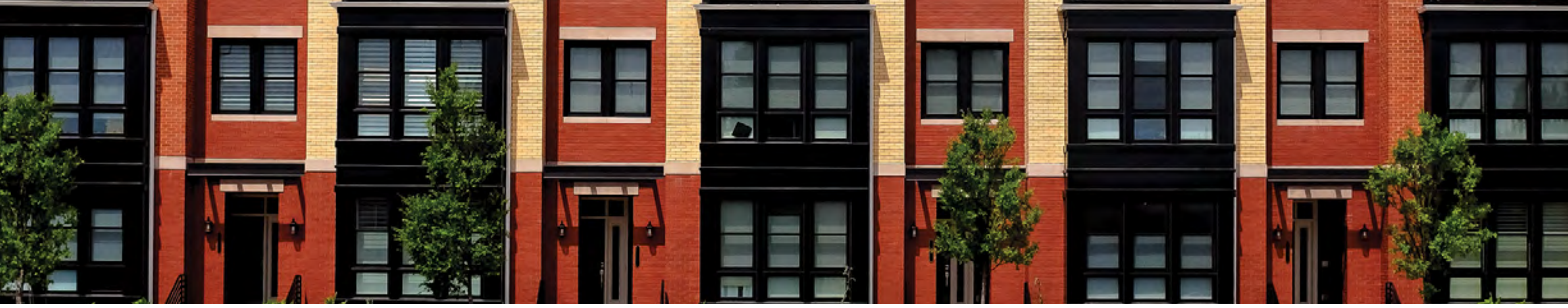

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Message from the Director

This Fiscal Year (FY) 2022 Performance and Accountability Report provides the financial statements and analysis for the Federal Housing Finance Agency (FHFA), and it assesses the performance of FHFA as regulator of the Federal Home Loan Bank (FHLBank) System and as regulator and conservator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – together, the Enterprises. This report meets the requirements of the Government Performance and Results Modernization Act of 2010, and its financial and performance data are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

The strategic goals against which this report evaluates the Agency's performance were established before my appointment as Acting Director. Accordingly, I focused on meeting the pre-established goals during FY 2022, while also transitioning the Agency and its regulated entities toward new goals that I believe are necessary to enable FHFA to fulfill its statutory responsibilities. In April 2022, FHFA released a new Strategic Plan that reflects and advances these priorities:

1) Secure the safety and soundness of the regulated entities;
2) Foster housing finance markets that promote equitable access to affordable and sustainable housing; and
3) Responsibly steward FHFA's infrastructure.

FHFA continues to strengthen the safety and soundness of its regulated entities. Following issuance of a regulatory capital rule in FY 2021 designed to ensure the financial health of Fannie Mae and Freddie Mac throughout the economic cycle, the Agency finalized important enhancements to the Enterprise Regulatory Capital Framework in FY 2022. These enhancements provide the Enterprises with the necessary incentives to transfer credit risk to private investors, which will help protect taxpayers from the risks posed by the Enterprises. In FY 2022, FHFA finalized additional capital planning requirements to ensure the Enterprises properly assess their risks and maintain the appropriate level of capital and finalized disclosure requirements to provide market participants with more information to assess an Enterprise's risks and capital adequacy.

FHFA is also ensuring that its regulated entities identify and manage emerging climate-related risks. The Agency has long worked with the Enterprises to develop effective disaster response loss mitigation toolkits to support borrowers and renters affected by natural disasters, such as hurricanes, floods, and wildfires. FHFA leveraged this experience to support the Financial Stability Oversight Council's annual climate risk review, while requiring the Enterprises to prioritize climate risks in their governance and decision-making.

FHFA is strengthening core statutory mission programs such as Duty to Serve and the housing goals for the Enterprises, and the Affordable Housing Program (AHP) and community development programs of the FHLBanks. FHFA is, for example, ensuring that the FHLBanks serve each state in their districts under the AHP, and that the FHLBanks' Targeted Community Lending Plans identify and seek to fulfill the needs of communities throughout the district, including tribal communities. These programs, like all regulated entity activities, must support access to credit that is sustainable and affordable, especially when reaching underserved populations like low- and moderate-income families, communities of color, and residents of rural areas.

As FHFA ensures the Enterprises responsibly meet their mission obligations, the Agency continues to oversee their development and implementation of the Equitable Housing Finance Plans. The Enterprises developed Equitable Housing Finance Plans following FHFA's Request for Input and public listening session in September 2021. The 2022-2024 plan activities, which will be updated annually, seek to sustainably address barriers experienced by renters, aspiring homeowners, and current homeowners – particularly in Black and Latino communities. FHFA also continues to build and advance its fair lending program to ensure that fair lending and equity considerations are integrated into the mission and business activities of its regulated entities.

As the FHLBank System nears its 100th year, FHFA is undertaking a comprehensive review to ensure the System remains positioned to meet the needs of today and tomorrow. As part of the review process, FHFA is hosting public listening sessions and a series of regional roundtable discussions to consider and evaluate the mission, membership eligibility requirements, and operational efficiencies of the FHLBank. FHFA will hear from stakeholders on the FHLBanks' role or potential role in addressing housing finance, community and economic development, affordability, and related issues.

Success in meeting FHFA's mission and goals requires empowered and supported staff and prudent business practices that responsibly steward the Agency's infrastructure. FHFA's high-performance culture leads us to continuously review our work to identify opportunities for improvements. All of FHFA's work reflects the Agency's values of fairness, accountability, integrity, and respect (FAIR values), built on a foundation of competence, diversity, equity, and inclusion.

Transparency and ongoing dialogue with stakeholders and the public are vital to the policymaking process. The publication of this report is just one of the ways FHFA informs the public about our planned actions and decision making to facilitate this ongoing dialogue.

This report demonstrates that FHFA performed well under the existing strategic goals and finds that the Agency has no material internal control weaknesses. Since its inception in July 2008, FHFA has received an unmodified audit opinion on its financial statements from the U.S. Government Accountability Office every year. This strong performance is a testament to the dedicated, hardworking, and professional staff of FHFA.

Sincerely,

SANDRA L. THOMPSON
Director, Federal Housing Finance Agency

November 8, 2022

FHFA's Mission, Vision, and Values[1]

MISSION

Ensure the regulated entities fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity for equitable and sustainable housing finance and community investment throughout the economic cycle.

VISION

For FHFA's supervisory, regulatory, and mission-related activities to support a reliable, stable, equitable, and liquid U.S. housing finance system.

VALUES

FHFA's culture is built on a foundation of competence, diversity, equity, and inclusion.
Accordingly, FHFA employees emulate the following values:

Fairness	We value varied perspectives and thoughts and treat others with impartiality.
Accountability	We are responsible for carrying out our work with transparency and professional excellence.
Integrity	We are committed to the highest ethical and professional standards to inspire trust and confidence in our work and in one another.
Respect	We treat others with dignity, share information and resources, and collaborate.

[1] FHFA published the **FHFA Strategic Plan: 2022-2026** on April 14. Due to timing, the performance reporting in the FY 2022 FHFA Performance and Accountability Report is based on the Agency's FY 2022 Annual Performance Plan (APP), which is based on the previous FHFA Strategic Plan: 2021-2024. The FHFA FY 2022 APP can be found at **FHFA Annual Performance Plan for Fiscal Year 2022**. Per the new FHFA Strategic Plan, the Agency's mission, vision, and values have been revised. The language above reflects the mission, vision, and values of FHFA reflected in the FHFA Strategic Plan: 2022-2026.

List of Abbreviations

Abbreviation	Description
AB	Advisory Bulletin
AHP	Affordable Housing Program
AI/ML	Artificial Intelligence and Machine Learning
AMA	Acquired Member Assets
APP	Annual Performance Plan
ARCC	Audit, Risk, and Control Committee
Bank Act	Federal Home Loan Bank Act
Bureau of the Fiscal Service	Fiscal Service
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
CEAR	Certificate of Excellence in Accountability Reporting
CFPB	Consumer Financial Protection Bureau
CLEAR	Competitive, Liquid, Efficient, And Resilient
CRS	Call Report System
CRT	Credit Risk Transfer
CSS	Common Securitization Solutions, LLC
CY	Calendar Year
D&I	Diversity and Inclusion
DAFS	Division of Accounting and Financial Standards
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DCOR	Division of Conservatorship Oversight and Readiness
DRS	Division of Research and Statistics
DTS	Duty to Serve
ERCF	Enterprise Regulatory Capital Framework
ESG	Environmental, Social, and Governance
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FEVS	Office of Personnel Management's Federal Employee Viewpoint Survey
FHFA	Federal Housing Finance Agency
FHFA HPI®	FHFA House Price Index®
FHLBank	Federal Home Loan Bank
Fintech Office	Office of Financial Technology
FISMA 2014	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System

Abbreviation	Description
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year
GAO	U.S. Government Accountability Office
Ginnie Mae	Government National Mortgage Association
HERA	Housing and Economic Recovery Act of 2008
IT	Information Technology
LTV	Loan-to-Value
MBS	Mortgage-Backed Security
MRA	Matter Requiring Attention
MVE	Market Value of Equity
MWOB	Minority- and Women-Owned Business
NMDB®	National Mortgage Database®
NPR	Notice of Proposed Rulemaking
NSMO	National Survey of Mortgage Originations
OCAC	Office of Congressional Affairs and Communications
OCOO	Office of the Chief Operating Officer
OD	Office of the Director
OEOF	Office of Equal Opportunity and Fairness
OF	Office of Finance (of the Federal Home Loan Bank System)
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPB	Operating Procedure Bulletin
OPM	U.S. Office of Personnel Management
OPPR	Office of Planning, Performance, and Risk
PAR	Performance and Accountability Report
PIIA	Payment Integrity Information Act of 2019
PSPA	Preferred Stock Purchase Agreement
PUDB	Public Use Database
PVCS	Par Value of Capital Stock
ROE	Report of Examination
Safety and Soundness Act	Federal Housing Enterprises Financial Safety and Soundness Act of 1992
Taxonomy	Supervision Taxonomy
Treasury	U.S. Department of the Treasury
UMBS	Uniform Mortgage-Backed Security
U.S.C.	United States Code
U.S. GAAP	U.S. Generally Accepted Accounting Principles
USSGL	U.S. Standard General Ledger

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About the Federal Housing Finance Agency

BACKGROUND ON FHFA’S STATUTORY OBLIGATIONS

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA), amending the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act). The Agency is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae and Freddie Mac (the Enterprises), Common Securitization Solutions, LLC (CSS), and the Federal Home Loan Bank (FHLBank) System, which includes the 11 FHLBanks and Office of Finance (OF), a joint office of the FHLBanks. FHFA’s mission is to ensure that Fannie Mae, Freddie Mac, and the FHLBanks (together, the regulated entities[2]) 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 through the economic cycle. Since September 6, 2008, FHFA has also served as conservator of the Enterprises.

Regulator

The Safety and Soundness Act as, amended by HERA, assigns to FHFA regulatory oversight of the Enterprises and the FHLBank System.[3] The statute vests FHFA with the authorities, similar to those of other prudential financial regulators, to maintain the financial health of the regulated entities. FHFA is responsible for supervising the business and operations of the regulated entities to ensure that they are safe and sound and aligned with the missions set forth in their authorizing statutes. FHFA exercises these regulatory and supervisory authorities by issuing rules, policy guidance documents, and regulatory orders.

The Safety and Soundness Act 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 the Safety and Soundness Act 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 the Safety and Soundness Act 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.[4]

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2 OF is not a “regulated entity” as the term is defined by statute (12 U.S.C. § 4502(20)). However, for convenience, references to the “regulated entities” in this report should be read to also apply to OF unless otherwise noted.

3 12 U.S.C. § 4513.

4 12 U.S.C. § 4513(a)(1).

Conservator

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

(D) … take such action as may be—

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

ii. appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.[5]

Continuing the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S. Code (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."[6]

[5] 12 U.S.C. § 4617(b)(2)(D).

[6] 12 U.S.C. § 5220(b)(1).

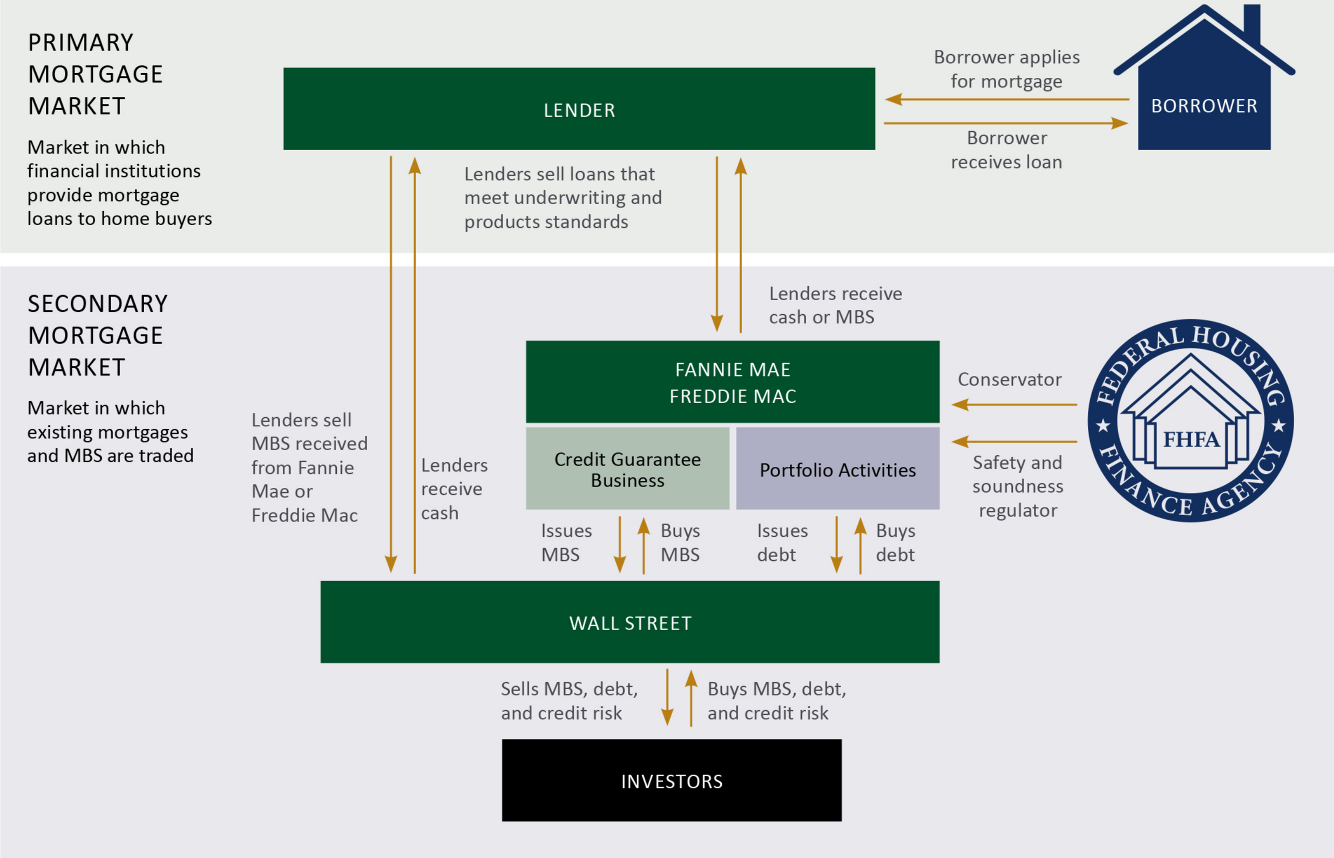
BACKGROUND ON THE REGULATED ENTITIES

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 residential mortgages. The Enterprises acquire mortgages that lenders have already made to borrowers. As shown in Figure 1, most single-family mortgages are pooled into mortgage-backed securities (MBS), which are guaranteed by the Enterprises and then sold to investors. The Enterprises guarantee the payment of principal and interest on the underlying mortgages and charge lenders a guarantee fee for assuming the credit risk associated with the acquired mortgages. Since 2008, the Enterprises have operated in conservatorships.

To reduce their credit risk exposure on guaranteed mortgages, the Enterprises routinely sell a portion of the credit risk on newly acquired single-family mortgages in targeted categories to the private sector. The Enterprises also purchase multifamily mortgages, and each Enterprise uses a different model of credit risk sharing for these purchases. Fannie Mae primarily uses loss-sharing transactions through a delegated underwriting system. Freddie Mac primarily uses a capital markets execution that transfers the bulk of its credit risk.

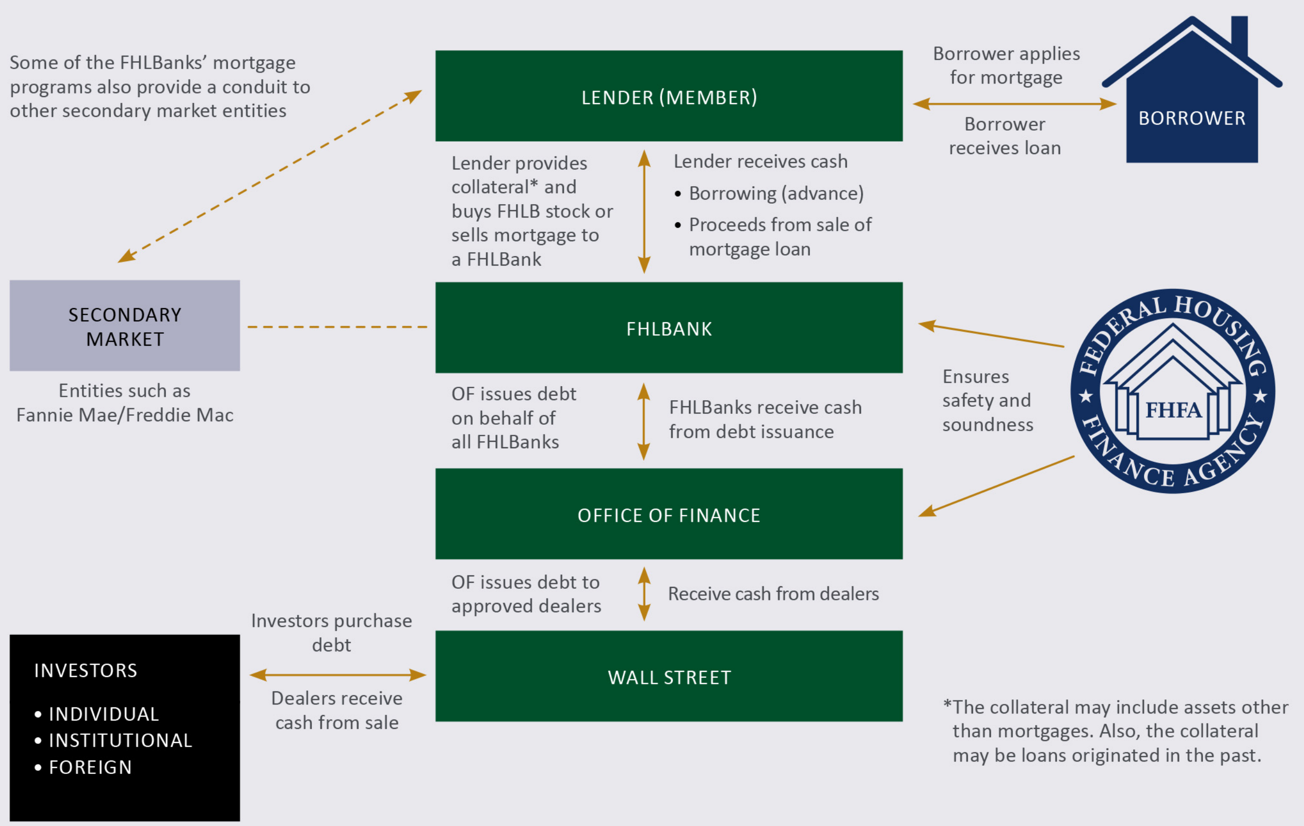
Figure 1: FHFA's Oversight Role – Fannie Mae and Freddie Mac



The Federal Home Loan Banks

Congress passed the Federal Home Loan Bank Act (Bank Act) in 1932 to establish the FHLBank System and reinvigorate a housing market devastated by the Great Depression. The FHLBank System includes 11 district FHLBanks, each serving a designated geographic area of the United States, and the Office of Finance (OF), which issues consolidated obligations[7] to fund the FHLBanks' operations. The FHLBanks are private member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making loans, known as advances, to member institutions and housing associates (see Figure 2). These advances increase the available funding for residential mortgages. The FHLBanks secure these advances with eligible collateral, consisting primarily of single-family mortgages, multifamily mortgages, government and agency securities, and commercial real estate loans. Some FHLBanks also purchase mortgage loans directly from their members through on-balance sheet Acquired Member Assets (AMA) programs.

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



As of September 30, 2022, there were 6,513 active FHLBank members, consisting of commercial banks, credit unions, thrifts, insurance companies, and community development financial institutions.

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7 Consolidated obligations refer to the joint obligations of the 11 FHLBanks and are debt instruments sold to the public through OF but that are not guaranteed by the U.S. government.

Table 1 illustrates selected items of the regulated entities' involvement in the housing market for Calendar Year (CY) 2021 and CY 2022 through the third quarter.

Table 1: Regulated Entities' Business Activity
(dollars in billions)

		Jan. – Dec. 2021	Jan. – Sep. 2022
Enterprise New Business	Single-Family Purchase	$881	$584
	Single-Family Refinance	$1,694	$411
	Multifamily	$139	$95
	TOTAL	$2,714[a]	$1,090[a]
FHLBank New Business[b]	On-Balance Sheet Acquired Member Assets Mortgages	$14	$7
	Off-Balance Sheet Mortgages	$7	$1
FHLBank AMA Mortgages Outstanding[c]		$56	$56
FHLBank Advances Outstanding[c]		$351	$655

[a] *Publicly available 10-K and 10-Q financial reports submitted by public companies to the U.S. Securities and Exchange Commission and Credit Supplement Reports.*

[b] *Under AMA programs, the FHLBanks acquire conforming and government-guaranteed or -insured loans. AMA mortgages are mortgages purchased by the FHLBanks generally as investments to hold on their books. Off-balance sheet mortgages are mortgages that the FHLBanks pass through directly to third-party investors or securitization.*

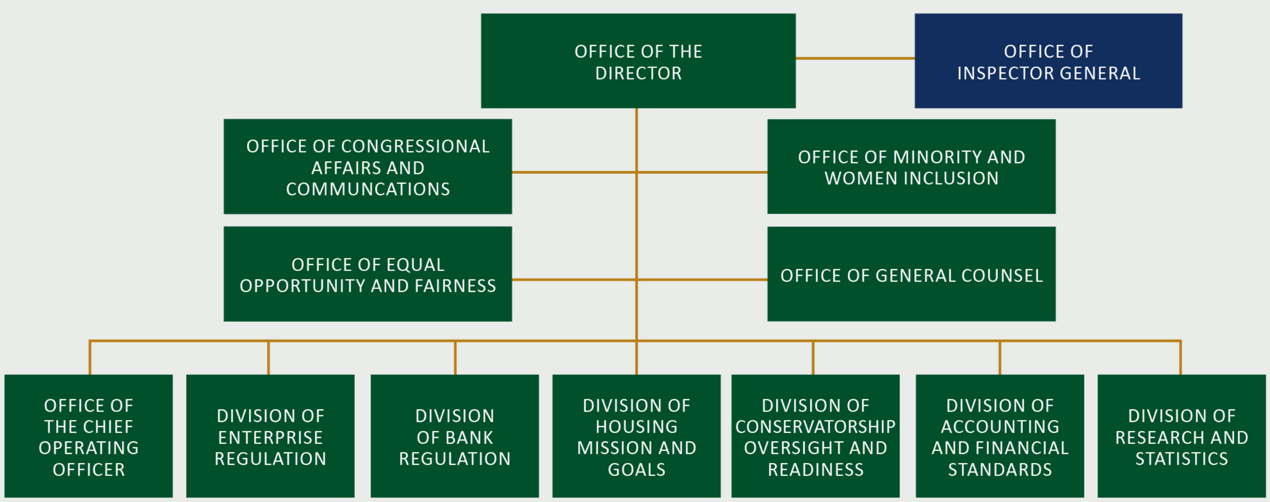
[c] *Annual data reported as of September 30, 2022.*

FHFA Organization

FHFA's workforce includes highly skilled examiners, economists, financial analysts, policy analysts, attorneys, accountants, and subject matter experts in banking, housing, insurance, technology, and legal matters.

The Director sets the course for the Agency to achieve its mission, and the Agency's divisions and offices work together to meet the Agency's strategic goals. FHFA's principal organizational units are shown in Figure 3.

Figure 3: FHFA Principal Organization Structure



The Agency operated with an approved operating budget of $279.1 million in Fiscal Year (FY) 2022 and ended the year with 717 employees on board. For FY 2023, the Agency's budget increased to $309.4 million and supports 804 positions. FHFA's Office of Inspector General (OIG) operated with a FY 2022 budget of $49.9 million and ended the year with 113 positions on board. The OIG FY 2023 budget increased to $55.0 million which will support 155 positions. See Table 2 for staff distribution by major FHFA divisions and offices.

The Office of the Director (OD) provides overall leadership and strategic direction for the Agency.

The Office of the Chief Operating Officer (OCOO) ensures the Agency has the necessary assets (people, technology, information, and facilities) and governance (policy, procedures, and processes) to achieve its regulatory mission. As the asset managers of FHFA, the office ensures the Agency uses systematic, structured, and coordinated approaches to optimally manage agency resources. This balancing of investments against performance towards the desired agency outcomes is essential for the greatest return on investment and to attain the Agency's strategic plan objectives.

The Division of Enterprise Regulation (DER) supervises the Enterprises and CSS and evaluates the safety and soundness of their financial condition and operations. DER contributes to the achievement of FHFA's strategic goals and strategic objectives through planning and executing risk-based examinations of the Enterprises and CSS, developing and preparing the annual reports of examination (ROEs), issuing supervision policy and examiner guidance, providing examiner training, and providing risk analysis. The annual ROEs assign composite and component ratings in accordance with FHFA's supervisory rating system and communicate the principal examination conclusions and findings for the supervisory cycle.

The Division of Federal Home Loan Bank Regulation (DBR) supervises the FHLBanks and OF to ensure their safe and sound condition and operation. The division oversees and directs all FHLBank examination activities, develops examination findings, and prepares ROEs. DBR monitors and assesses the financial condition and performance of the FHLBanks and OF and tests their compliance with laws and regulations through annual examinations, periodic visits, 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) examinations of each FHLBank annually to promote compliance with program regulations and to evaluate the effectiveness of each FHLBank's AHP.

Table 2: FHFA Staffing Summary

	FY 2022 (Actual[a])	% by Functional Area	FY 2023 (Budget)	% by Functional Area
Number of FHFA Employees				
Mission Division/Offices[b]	511	71%	564	70%
Mission Support Division/Offices[c]	206	29%	240	30%
Total FHFA Employees	717	100%	804	100%
Number of OIG Employees	113		155	

[a] *Actuals are as of September 30, 2022.*

[b] *Mission Divisions and Offices include: Division of Accounting and Financial Standards, Division of Bank Regulation, Division of Conservatorship Oversight & Readiness, Division of Enterprise Regulation, Division of Housing Mission and Goals, Division of Research and Statistics, and Office of Minority and Women Inclusion.*

[c] *Mission Support Divisions and Offices include: Director's Office, Office of the Chief Operating Officer, Office of Congressional Affairs and Communications, Office of Equal Opportunity and Fairness, and Office of General Counsel.*

The Division of Housing Mission and Goals (DHMG) is responsible for oversight of the Enterprises' single-family and multifamily housing policies and programs, the Enterprises' and FHLBanks' affordable housing programs and fair lending compliance, and the Enterprises' regulatory capital policy. DHMG oversees the affordable housing goals and Duty to Serve requirements for the Enterprises, as well as the affordable housing goals of the FHLBanks, and provides oversight of FHLBank community and economic development programs. DHMG monitors the Enterprises and the FHLBanks for fair lending risk and conducts targeted fair lending risk assessments on their policies, programs, and activities. DHMG's capital policy responsibilities include developing regulatory capital policy for the Enterprises and providing oversight of their Dodd-Frank Act Stress Tests, credit risk transfer programs, and counterparty financial eligibility standards. DHMG oversees and coordinates FHFA activities 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, the Financial Stability Oversight Council, and the Appraisal Subcommittee.

The Division of Conservatorship Oversight and Readiness (DCOR) assists the FHFA Director, as conservator, in carrying out conservatorship obligations. DCOR monitors Enterprise business and board activities and facilitates communications between the Enterprises and FHFA as conservator to ensure the prompt identification of emerging issues and their timely resolution. DCOR also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorships. DCOR is also responsible for ensuring that FHFA can address troubled entities in a safe, efficient, and stabilizing manner, particularly if an economic downturn emerges, including contingency plans for resolving FHFA-regulated entities in the event of distress and failure.

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, rule 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 Division of Accounting and Financial Standards (DAFS) promotes the safety and soundness of the regulated entities, as well as liquid, competitive, efficient, and resilient mortgage markets. The Office of the Chief Accountant performs oversight of the regulated entities' accounting policies, internal controls over financial reporting, financial disclosures, internal and external audit functions, and financial crimes compliance and risk management. DAFS provides supervisory guidance and support in these areas, and researches and analyzes accounting and auditing standards developments, rule changes, and guidance pertinent to financial crimes compliance and risk management. DAFS supports the transparency and accountability of FHFA's supervision and regulation through the Office of the Ombudsman, which provides independent, neutral consideration of complaints and appeals on matters relating to FHFA's regulation and supervision of the regulated entities.

The Division of Research and Statistics (DRS) leads the Agency's efforts to produce and disseminate high quality data, research, statistics, and analysis to internal and external stakeholders. For example, the division is responsible for publishing FHFA's House Price Index®, FHFA's National Mortgage Database®, the National Survey of Mortgage Originations data, and the Enterprise Public Use Database. The division also leads the Agency's efforts to manage and leverage data as a strategic asset by improving the Agency's data governance, lifecycle data management, analytics capabilities, and public data dissemination. The division provides the leadership and coordination needed to achieve the Agency's Climate Change and Environmental, Social, and Governance (ESG) objectives. DRS staff also work with other government researchers and data experts, engage in academic and industry conferences and meetings, and disseminate statistical products and research to the public.

The Office of Minority and Women Inclusion (OMWI) leads the Agency's efforts to advance diversity, equity, and inclusion among its workforce and senior-level management. OMWI is responsible for increasing the participation of minority- and women-owned businesses in Agency programs and contracts, including standards for coordinating technical assistance to such businesses, assessing the diversity policies and practices of the regulated entities, and evaluating the good faith efforts of Agency contractors and subcontractors. OMWI also oversees and directs all diversity and inclusion (D&I) examination activities, develops examination findings, and prepares annual D&I ROEs for the Enterprises, the FHLBanks, OF, and CSS.

The Office of Equal Opportunity and Fairness (OEOF) houses FHFA's Equal Employment Opportunity (EEO), anti-harassment, and alternative dispute resolution functions and has the responsibility for maintaining effective affirmative employment programs. The office partners with FHFA leadership and the workforce to ensure an equitable and civil workplace, grounded in the dignity and respect of all employees. The office interprets the Equal Employment Opportunity Commission's regulations, Management Directives, and guidance documents, while remaining proactively neutral and impartial in the administration of the federal EEO Complaint Process and the Harassment Prevention Program. The office educates the workforce on their rights and responsibilities under civil rights laws. OEOF ensures that FHFA is compliant with EEO laws and regulations. In addition, the office develops tools, methodologies, and learning and education options to inform the workforce about how to address workplace conflict through various modalities of alternative dispute resolution.

The Office of Congressional Affairs and Communications (OCAC) is responsible for the public affairs and congressional relations functions at FHFA and is the primary point of contact for the external and internal communications of the agency. OCAC prepares and disseminates pertinent public information and responds to inquiries from Congress, the media, industry, and the public at large.

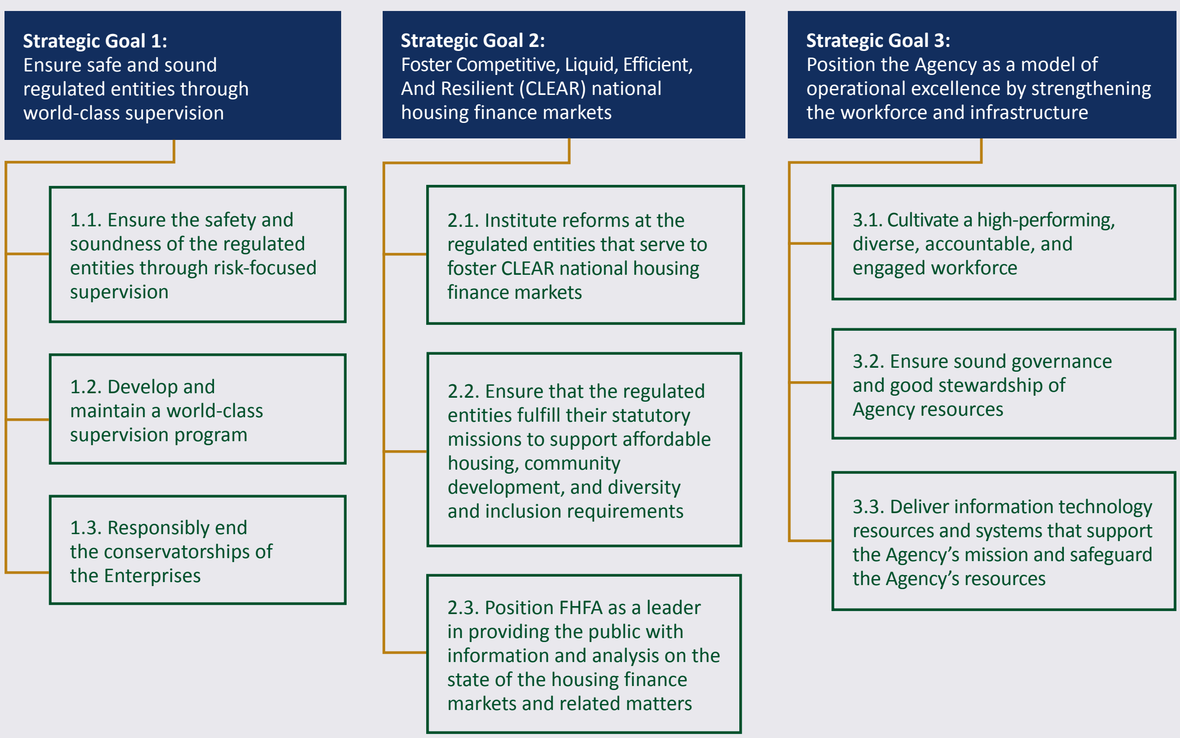
The Office of Inspector General (OIG) conducts independent audits, evaluations, compliance reviews, and investigations to help FHFA achieve its mission and goals and guard against waste, fraud, and abuse. OIG informs the Director, Congress, and the public of any problems or deficiencies relating to programs and operations. OIG activities assist FHFA staff and program participants by ensuring the effectiveness, efficiency, and integrity of FHFA's programs and operations.

Performance Summary

STRATEGIC GOALS AND STRATEGIC OBJECTIVES

FHFA's Strategic Plan[8] provides the foundation for Agency planning, budgeting, operations, and reporting. The Agency's Strategic Plan establishes long-term strategic goals to achieve FHFA's mission and the strategic objectives to achieve those strategic goals. It also identifies planned means and strategies to achieve the strategic objectives. Key elements from FHFA's FY 2022 Annual Performance Plan (APP), which reports progress on the Agency's Strategic Plan, are presented in Figure 4, including the Agency's vision and mission, as well as the three strategic goals and their corresponding strategic objectives that were in effect during FY 2022, the period covered by this report. The performance measures associated with the strategic objectives are presented on pages 35-66. Validation and verification activities, conducted to confirm that performance results are reported accurately, are described on page 34, and a template that FHFA uses to validate and verify its measures and data can be found in the Appendices on page 124.

Figure 4: FHFA'S FY 2021-2024 Strategic Plan: Goals and Objectives



[8] FHFA published the FHFA Strategic Plan: 2022-2026 on April 14, 2022, available at **https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2022-2026_Final.pdf**. However, performance reporting in the FY 2022 FHFA PAR is based on the Agency's FY 2022 APP at **https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FY2022_APP.pdf**, which is based on the FHFA Strategic Plan: 2021-2024.

SUMMARY OF PERFORMANCE MEASURES AND RESULTS

For FY 2022, FHFA identified a total of 33 performance measures and associated targets to monitor progress toward achieving the Agency's strategic goals and strategic objectives. FHFA met the targets for 30 of these measures at a 91 percent success rate. The overall results indicate progress toward achieving FHFA's goals and mission.

Table 3 presents a summary of FY 2022 performance measures and results. More information on FHFA's performance organized by strategic goal can be found in the Performance Section, starting on page 31.

Table 3: Summary of Performance Measures and Results

Performance Measure	FY 2022 Target	FY 2022 Result
STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITES THROUGH WORLD-CLASS SUPERVISION		
Strategic Objective 1.1: Ensure the safety and soundness of the regulated entities through risk-focused supervision		
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2022	100 percent of the time	MET
1.1.1b: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks	100 percent of the time	MET
1.1.2a: Approve reports of examination by March 31, 2022 for the Enterprises	100 percent of the time	MET
1.1.2b: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank	100 percent of the time	MET

Table 3: Summary of Performance Measures and Results		
Performance Measure	**FY 2022 Target**	**FY 2022 Result**
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	100 percent of the time	MET
Strategic Objective 1.2: Develop and maintain a world-class supervision program		
1.2.1a: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	90 percent of the time	MET
1.2.1b: Determine that the FHLBanks and Office of Finance have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	90 percent of the time	MET
Strategic Objective 1.3: Responsibly end the conservatorships of the Enterprises		
1.3.1: Issue a proposed rule on Enterprise disclosures under the Enterprise Regulatory Capital Framework	FY 2022	MET
1.3.2: Issue a proposed rule on Enterprise Capital Planning	FY 2022	MET
STRATEGIC GOAL 2: FOSTER COMPETITVE, LIQUID, EFFICIENT, AND RESILIENT (CLEAR) NATIONAL HOUSING FINANCE MARKETS		
Strategic Objective 2.1: Institute reforms at the regulated entities that serve to foster CLEAR national housing finance markets		
2.1.1: Document review of regulated entity public filings	Quarterly documentation of reviews within 45 days after the required filing date	MET
2.1.2: Publish annual Guarantee Fee Report	December 2021	MET
Strategic Objective 2.2: Ensure that the regulated entities fulfill their statutory missions to support affordable housing, community development, and diversity and inclusion requirements		
2.2.1: Publish final Enterprise housing goals rule for 2022-24	December 2021	MET
2.2.2: Issue annual ratings for each Enterprise's Duty to Serve performance in 2020	October 2021	MET
2.2.3: Determine that the Enterprises have met the mission-driven requirements in **Appendix A of the Conservatorship Scorecard**[9]	1. Each Enterprise's mission-driven business meets or exceeds 50 percent of total multifamily business for CY 2021, and 2. At least 20 percent of each Enterprise's total business is affordable at or below 60 percent of area median income	MET
2.2.4: Issue an Operating Procedures Bulletin on fair lending examinations for the Enterprises	July 2022	MET
2.2.5: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon remediation plans and timeframes	90 percent	MET

[9] The 2022 Scorecard expands the definition of naturally occurring affordable housing to include affordability adjustments in certain markets FHFA designates as cost-burdened to renters and classifies as mission-driven, financing that facilitates energy and water conservation measures for low-income tenants. Other mission-driven business includes loans on manufactured housing; community blanket loans; loans that finance properties in rural markets; loans that finance small multifamily (5-50 unit) properties; loans that finance seniors housing assisted living properties; and loans on properties encumbered by a regulatory agreement or recorded use restriction that restricts the unit rents and the incomes of the tenants occupying the units.

Table 3: Summary of Performance Measures and Results		
Performance Measure	**FY 2022 Target**	**FY 2022 Result**
2.2.6a: Approve Diversity and Inclusion reports of examination by March 31, 2022, for the Enterprises and Common Securitization Solutions	100 percent of the time	NOT MET
2.2.6b: Approve Diversity and Inclusion reports of examination for at least nine of the FHLBank System regulated entities	100 percent of the time	MET
Strategic Objective 2.3: Position FHFA as a leader in providing the public with information and analysis on the state of the housing finance markets and related matters		
2.3.1: Publish FHFA House Price Indexes	12 monthly and 4 quarterly	MET
2.3.2: Publish annual Public Use Database	September 2022	MET
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database	One per quarter	MET
STRATEGIC GOAL 3: POSITION THE AGENCY AS A MODEL OF OPERATIONAL EXCELLENCE BY STRENGTHENING THE WORKFORCE AND INFRASTRUCTURE		
Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce		
3.1.1: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"	Positive responses equal to or higher than both the small agency and government-wide averages	MET
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index is at or above the percent that the Office of Personnel Management considers an agency "Strength"	65 percent positive	MET
3.1.3: Improve the number of days to hire	95 workdays	MET
3.1.4: Develop FHFA Human Capital Plan	July 2022	NOT MET
Strategic Objective 3.2: Ensure sound governance and good stewardship of Agency resources		
3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses	100 percent of the time	MET
3.2.2: Award FHFA contracts competitively	75 percent	MET
3.2.3: Complete corrective actions to address audit recommendations in a timely manner	95 percent of the corrective actions to address Office of Inspector General recommendations are completed within one year of the resolution date	NOT MET
3.2.4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	Total dollar amount of contracts greater than the five-year average	MET
Strategic Objective 3.3: Deliver information technology resources and systems that support the Agency's mission and safeguard the Agency's resources		
3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	100 percent of the time	MET
3.3.2: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	99.5 percent of the time	MET
3.3.3: Determine average user response on FHFA help desk ticket surveys	4.5 rating on a scale of 0 to 5	MET

Looking Forward

FHFA has identified the following key management challenges and priorities the Agency is likely to face going forward as efforts to accomplish its mission continue.

Promote Equitable Access to Housing

In FY 2022, FHFA instructed the Enterprises to develop Equitable Housing Finance Plans that identify and address barriers to sustainable housing opportunities and include the Enterprises' goals and proposed action plans to advance equity in housing finance for the next three years. In June 2022, FHFA announced the release of the Enterprises' Equitable Housing Finance Plans for 2022-2024. The plans address barriers experienced by aspiring homeowners and current homeowners before, during, and after getting a mortgage, as well as barriers experienced by renters. Importantly, the plans recognize that unsustainable credit is not equitable credit. The proposed activities are focused on removing unnecessary barriers and using technology to identify ways to responsibly serve more borrowers, without weakening credit standards that put a family's home—often its largest source of wealth—at risk.

In FY 2023, FHFA will continue to work closely with the Enterprises, industry participants, and the public to ensure successful implementation of plan activities. Similar to the Enterprises' Duty to Serve Plans, each activity contemplated as part of an Equitable Housing Finance Plan will be subject to safety and soundness reviews, ongoing engagement with stakeholders, and further refinement and development. FHFA will host another listening session to solicit additional public input as the Enterprises look to update their plans based on feedback and key lessons learned in FY 2022. Since many activities will test new concepts for the first time, the Enterprises will report on their accomplishments and progress to date in FY 2023.

Strengthen Fair Lending Programs

FHFA established the Office of Fair Lending Oversight in 2018 to ensure comprehensive fair lending oversight of its regulated entities. FHFA continues to build and advance its fair lending program to ensure fair lending and equity considerations are integrated into the mission and business activities of its regulated entities. In FY 2022, FHFA continued to strengthen its supervisory program by issuing supervision guidance describing its fair lending examination procedures and setting appropriate expectations for Enterprise oversight of their fair lending responsibilities. FHFA's first fair lending examination guidance document, Advisory Bulletin 2021-04: Enterprise Fair Lending and Fair Housing Compliance, articulates substantive policy on how FHFA will supervise and enforce fair lending and explicitly adopts certain other procedural guidance for fair lending supervisory examinations.

During FY 2023, FHFA will focus on continuing to mature its fair lending supervision and monitoring program. FHFA's fair lending supervision program will work to further align with other supervisory offices on adverse findings, formal feedback on fair lending compliance, and risk-based prioritization. Finally, FHFA will expand its supervisory engagements with the FHLBanks and continue to use its regulatory, supervisory, and conservatorship authorities to address significant fair lending risks or violations of fair housing laws by the Enterprises.

Office of Financial Technology

In FY 2022, FHFA established an Office of Financial Technology (Fintech Office) to support the Agency's efforts to understand technology-driven developments in housing finance and the associated risks. The Fintech Office facilitates responsible innovation across FHFA's regulated entities, balancing the value of new ideas, products, and operational approaches with the need for effective risk management and governance. The Fintech Office is a centralized resource for the Agency on mortgage-related innovations, general trends, and emerging risks in the use of fintech. The office engages internally through the FHFA Fintech Working Group, which consists of Agency leadership and experts across divisions and offices.

In FY 2023, the Fintech Office plans to engage with market participants, industry, nonprofits, consumer groups, and academia to facilitate the sharing of best practices and establish ongoing outreach and dialogue. The Fintech Office will also analyze public input received in response to a Request for Information on the role of technology in housing finance issued in July and from a listening session on the same topic held in October.[10]

Climate and Natural Disaster Risk

In FY 2022, FHFA established a Climate Risk ESG Steering Committee and supporting working groups with staff from across the Agency to focus on identifying the channels through which climate events and natural disasters can lead to adverse financial effects for the Agency's regulated entities, as well as for homeowners and renters. FHFA's working groups focus on data and research, assessing climate exposure, governance, reporting and disclosures, consumer protections, green bonds, Agency operations, and climate-related legal issues. FHFA has been holding meetings with other federal agencies and stakeholders and has joined national and international climate-focused groups such as the Financial Stability Oversight Council's Climate-related Financial Risk Committee, the U.S. Department of the Treasury's (Treasury) Financial Literacy and Education Commission, and the Network of Central Banks and Supervisors for Greening the Financial System.

In FY 2023, FHFA intends to further develop the Enterprises' and Agency's climate research agendas. Additionally, FHFA plans to issue climate risk examination guidance for evaluating the incorporation of climate risk into decision making of the Enterprises and FHLBanks and to provide training to examination staff. FHFA will also continue to seek opportunities to provide greater incentives for investments in climate resiliency and energy efficiency through its regulated entities.

[10] See *Fintech in Housing Finance* at **https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fintech-in-Housing-Finance-Request-for-Information.pdf**. See also *Public Listening Session on Financial Technology in Housing Finance*, available at **https://www.fhfa.gov/Media/Pages/Public-Engagements.aspx12**.

FHLBank System At 100: Focusing on the Future

In FY 2023, FHFA will conduct a comprehensive review of the FHLBank System to ensure the FHLBanks remain positioned to meet the needs of today and tomorrow. The FHLBanks have been a critical source of liquidity for their members for the past 90 years, especially during times of market stress, such as the Great Recession and the outset of the COVID-19 pandemic. The FHLBanks also support low-income housing and community development directly by offering a variety of programs to their members, including the Affordable Housing Program, the Community Investment Program, and Community Investment Cash Advance Programs.

As part of the review process, FHFA is hosting public listening sessions and a series of regional roundtable discussions to consider and evaluate the mission, membership eligibility requirements, and operational efficiencies of the FHLBanks. FHFA will hear from stakeholders on the FHLBanks' role or potential role in addressing housing finance, community and economic development, affordability, and other related issues.

Financial Summary

ANALYSIS OF FINANCIAL STATEMENTS

Overview

FHFA prepares annual financial statements for the Agency in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) as specified by the Federal Accounting Standards Advisory Board (FASAB) for federal government entities. The FHFA OIG, which is consolidated and combined in FHFA's financial statements, has maintained its own financial records since April 2011. In accordance with HERA, the Government Accountability Office (GAO) performs an independent audit of the consolidated and combined financial statements.

How Is FHFA Financed?

HERA authorizes FHFA to collect annual assessments from the Enterprises and the FHLBanks to cover the costs of performing the Agency's statutory responsibilities related to supervision of the regulated entities, its conservatorships, and other responsibilities, and to maintain a working capital fund. FHFA is financed through revenue from assessments and is considered a non-appropriated entity. (FHFA does not receive any appropriated funds from Congress.) In addition to the collection of assessments, HERA authorizes FHFA to invest the idle portions of the assessments through the Treasury Federal Investment Program, which is available exclusively to federal government organizations. (See Financial Statement Note 1.G for further explanation of investments.)

Annually, FHFA determines the total expected costs associated with regulating the Enterprises and the FHLBanks. The expected costs are shared proportionally among the Enterprises and the FHLBanks in accordance with FHFA's assessment regulation, 12 CFR 1206.6. FHFA issues assessment notices to the regulated entities semi-annually, with the collections occurring October 1 and April 1. In FY 2022, FHFA assessed the entities a total of $317.5 million, including $49.9 million to support OIG.

Under HERA, FHFA is authorized to retain a working capital fund for unforeseen or emergent requirements, which can be funded through a special assessment to the entities or through retention of unobligated balances at the end of the fiscal year. At the end of FY 2022, the FHFA working capital fund had a balance of $37.0 million.

What Is an Unmodified Opinion?

FHFA received an unmodified opinion from GAO on its annual financial statements. This means the auditor, GAO, expressed an opinion that FHFA's financial statements are fairly presented in all material aspects in accordance with U.S. GAAP. FHFA also received an opinion that it maintained, in all material respects, effective internal control over financial reporting. GAO found no instances of reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements it tested.

FHFA'S Financial Statements

The principal financial statements present FHFA's financial position (Balance Sheet), Statement of Net Cost of Operations, Statement of Changes in Net Position, and Statement of Budgetary Resources for FY 2022 and FY 2021. GAO's audit report, along with complete financial statements and notes for FY 2022 and FY 2021, appear on pages 73-103.

Limitations of the Financial Statements

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

FY 2022 COVID-19 – FINANCIAL IMPACT ON FHFA

As a non-appropriated entity, FHFA used its existing resources to support necessary activities to ensure safety of its employees and facilities and implement Agency activities and policy changes to support the regulated entities. FHFA did not receive additional funding to support these activities. All costs are included in appropriate financial statements discussed below.

WHAT IS FHFA'S NET POSITION AND NET COSTS?

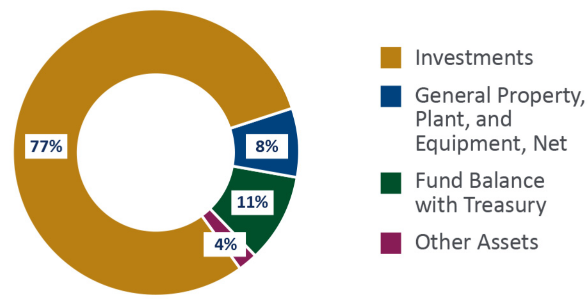
Balance Sheet (Assets - Liabilities = Net Position)
The Consolidated Balance Sheet presents, as of September 30, 2022, the recorded value of assets (funding, property, and amounts owed to FHFA), and liabilities (amounts FHFA owes, retained or managed by FHFA). The difference between the assets and liabilities represents FHFA's net position.

Assets

At year-end FY 2022, FHFA had $147.7 million in assets. The largest asset groups include: Investments (77 percent), Fund Balance with Treasury (11 percent), General Property, Plant, and Equipment, Net (8 percent), and Other Assets (including Advances and Prepayments and Accounts Receivable) (4 percent), as displayed in Figure 5. FHFA had less than 1 percent in Accounts Receivable at the end of the year. Accounts Receivable is not displayed in Figure 5 since it accounts for less than 1 percent.

FHFA's investment portfolio included semi-annual assessment payments from its regulated entities and the working capital fund. FHFA invests solely in market-based Government Account Series one-day certificates issued by Treasury to efficiently use idle funds with minimum risk in accordance with statutory authorities.

Figure 5: Distribution of Total Assets for FY 2022

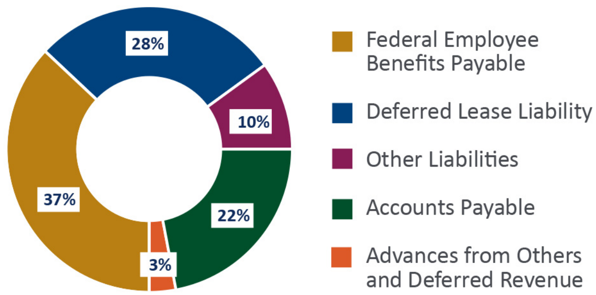


Liabilities

At year-end FY 2022, FHFA had $56.3 million in liabilities. FHFA's major liabilities (amounts owed by FHFA to other entities) include Federal Employee Benefits Payable (37 percent), Deferred Lease Liability (28 percent), Accounts Payable (22 percent), and Other Liabilities (10 percent), as displayed in Figure 6. The largest liability, Federal Employee Benefits Payable, consists of both Unfunded Accrued Annual Leave for FHFA employees and FECA Actuarial Liability. The largest component in the Federal Employee Benefits Payable category is Unfunded Accrued Annual Leave, consisting of amounts resulting from accumulated, unused employee leave.

The second largest category, Deferred Lease Liability (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. Determination and recording of deferred rent is applicable to the non-federal lease agreement on the property at 400 7th Street SW, Constitution Center, Washington, D.C. The Constitution Center tenant allowance is the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease. The third largest liability is Accounts Payable. These are amounts owed to commercial vendors supporting FHFA legal services and mission support activities.

Figure 6: Distribution of Total Liabilities for FY 2022



Net Position

FHFA's net position (assets-liabilities) decreased by (10 percent), or $10.1 million, in FY 2022, primarily due to the decrease in investments. The Total Asset decrease is related to the use of its working capital fund to finance large capital projects to modernize its technology infrastructure and the decrease in Special Assessments collections for FY 2022. In accordance with the FHFA regulation, Special Assessments can be used to support conservatorship-related activities. The 7 percent change in Total Liabilities is a combination of reductions in Deferred Lease Liability ($2.4 million) and Other Liabilities ($5.6 million). A comparison of the condensed FY 2022 and FY 2021 Balance Sheets is displayed in Table 4. The complete Balance Sheets can be found on page 81.

Table 4: FHFA Condensed Balance Sheets
(dollars in thousands*)

	FY 2022	FY 2021	Percent change
Total Assets	$147,716	$162,105	(9%)
Total Liabilities	$56,255	$60,516	(7%)
Total Net Position	$91,461	$101,589	(10%)

**Amounts are rounded for presentation purposes.*

Net Costs

The Statements of Net Cost reflects gross cost of operating the Agency, by strategic goal, less related revenues. The Statements of Net Costs represents the full cost of operating FHFA, consolidated with the costs of operating the FHFA OIG. Gross program costs for FY 2022 are $338.4 million, which is an increase of $20.8 million above the FY 2021 gross program costs of $317.6 million.

HOW DOES FHFA GENERATE REVENUE?

In accordance with HERA, FHFA collected through the semi-annual assessment process $317.5 million during FY 2022, which included a $49.9 million assessment for costs related to the operations of the FHFA OIG. Regulated entity assessments account for approximately 99.1 percent of Agency revenues.

Less than 1 percent of the revenue is generated from sources such as reimbursable agreements with other federal agencies, interest earned on overnight investments, and employee reimbursements.

Revenue for FY 2022 was 5 percent less than FY 2021 due to lower assessments for legal and financial services related to efforts to develop a plan to end the conservatorships of the Enterprises. FHFA's summary costs and revenue are reflected in the Statements of Net Cost for FY 2022 and FY 2021 as presented in Table 5.

Table 5: Summarized Costs and Revenue
(dollars in thousands*)

	FY 2022	FY 2021
Costs	$338,354	$317,555
Revenue	$(320,327)	$(336,854)
Net Cost from Operations	$18,027	$(19,299)

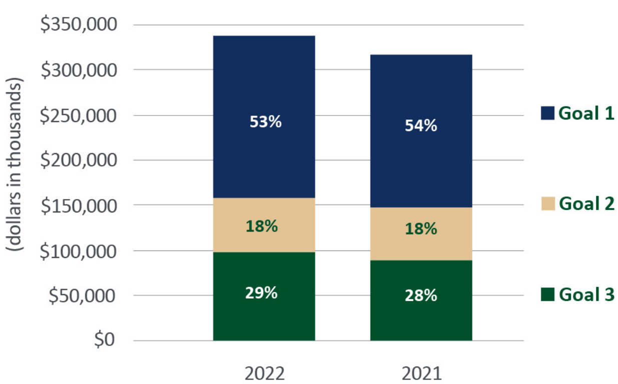
**Amounts are rounded for presentation purposes.*

HOW DOES FHFA ALIGN COSTS TO STRATEGIC GOALS?

For FY 2022, FHFA assigned costs to the three strategic goals established by FHFA's 2021-2024 Strategic Plan. These Strategic Goals are: (1) Ensure safe and sound regulated entities through world-class supervision, (2) Foster CLEAR national housing finance markets, and (3) Position the Agency as a model of operational excellence by strengthening the workforce and infrastructure.

Effective and efficient agency-wide services and management and administrative systems are essential to achieve FHFA's mission and strategic goals. Indirect costs are distributed proportionately to the three strategic goals based on the percentage of direct program costs allocated to each goal to the total direct program costs for the Agency (individual program costs/total direct program costs). FHFA OIG costs are allocated as part of FHFA's indirect costs. The distribution of FHFA's gross costs by strategic goal for FY 2022 and FY 2021 are presented in Figure 7.

Figure 7: Gross Costs by Strategic Goal



In FY 2022, Goal 1 was FHFA's largest program area at $180.3 million or 53 percent of total gross costs. The next largest program area was Goal 3 at $98.8 million, or 29 percent. Goal 2 was the smallest of the three program areas at $59.3 million. Overall, gross costs increased from FY 2021 to FY 2022 due to critical investment in technology modernization efforts supporting mission, climate risk, and the continued focus on expanding the Agency's research capacity.

HOW DOES FHFA COMPLY WITH INTERNAL CONTROLS?

FHFA uses systems, controls, and legal compliance to determine Management Assurances. It is through the activities described below that FHFA can state its Management Assurances.

Federal Managers' Financial Integrity Act (FMFIA)

Internal controls are essential to effective agency management and provide reasonable assurance that the following objectives will be achieved: reliability of reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations. FMFIA establishes management's responsibility to assess and report on internal accounting and administrative controls. The assessment includes the mission, operational, and administrative areas, including accounting and financial management. FMFIA requires federal agencies to establish controls that reasonably ensure that obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable reports and to maintain accountability over the assets.

During FY 2022, FHFA adhered to the internal control requirements of FMFIA and the guidance provided by OMB Circular A-123: Management's Responsibility for Enterprise Risk Management and Internal Control. FHFA's Audit, Risk, and Control Committee (ARCC)[11] met quarterly to oversee internal controls and provide recommendations to the FHFA Director on the effectiveness of FHFA's internal controls.

During FY 2022, FHFA monitored and assessed the following areas:

FHFA OIG

To ensure compliance with the internal control requirements of FMFIA, and in accordance with A-123, the FHFA OIG has maintained an Executive Committee on Internal Controls (ECIC), which is chaired by the Assistant Inspector General for Compliance. The ECIC is tasked with assessing internal controls at OIG. Membership on the ECIC includes the deputy inspector general, the chief counsel, the chief information officer, the chief information security officer, and the budget and finance director.

[11] As of March 3, 2022, FHFA replaced the Executive Committee on Internal Controls with the ARCC.

Based on the risk profiles and internal control assessments completed by each FHFA OIG office, which identified no significant issues, the FHFA OIG ECIC recommended that the Inspector General sign an assurance statement to the FHFA Director recommending an unmodified statement of assurance relative to the three areas assessed by the FHFA OIG: internal control over financial reporting, effectiveness and efficiency of operations, and compliance.

Reliability Over Financial Reporting

FHFA's Office of Planning, Performance, and Risk (OPPR) conducted an independent assessment of the Agency's controls over financial reporting using a risk-based approach. OPPR completed the assessment and reported the results to the Agency's Senior Assessment Team (SAT) and the ARCC. The assessment determined that there were no material weaknesses that adversely affect internal controls over financial reporting.

Reliability Over Non-Financial Reporting

Assessment teams from FHFA divisions and offices reviewed controls over a sample of non-financial reports using guidance from the GAO *Standards for Internal Control in the Federal Government,* GAO 14-704G, (GAO Green Book).[12] Division management officials and staff reviewed the completed assessments. OPPR reviewed the completed assessments and results from across the Agency and reported the results to the SAT and the ARCC. The assessment determined that there were no material weaknesses that adversely affect the controls over non-financial reporting.

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, the Agency's OGC reviewed the submissions, and OPPR reported the results to the SAT and the ARCC. The assessment determined that there were no material weaknesses that adversely affect the compliance with laws and regulations.

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12 **https://www.gao.gov/products/GAO-14-704G**.

Effectiveness and Efficiency of Operations

Assessment teams from FHFA divisions and offices assessed controls over their operations using guidance from the GAO Green Book. Assessment teams also assessed the controls for a sample of administrative processes and service providers. Division management officials and staff reviewed the completed assessments. OPPR reviewed the completed assessments and results from across the Agency and reported the results to the SAT and the ARCC. The assessment determined that there were no material weaknesses that adversely affect the effectiveness and efficiency of operations.

Assessment Reporting

The ARCC reviewed the assessment and recommended an unmodified statement of assurance. In compliance with FMFIA requirements, the FHFA Director, on the basis of a recommendation from ARCC, 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, 2022, were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

Federal Management Information Systems 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 (such as the Federal Financial Management Improvement Act of 1996), applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. FHFA, including the FHFA OIG, uses the Bureau of the Fiscal Service (Fiscal Service) for its accounting services and its financial management system (FMS), which includes: 1) a core accounting system—Oracle Federal Financials; 2) four feeder systems—Procurement Request Information System Management,

Concur (travel), Invoice Processing Platform (payments), and CitiDirect (charge card); 3) a reporting system—Oracle Business Intelligence; and 4) an inventory tracking system. FHFA is responsible for overseeing Fiscal Service performance of accounting services for the Agency based on the terms and assignment of activities outlined in the Interagency Agreement. FHFA's oversight of Fiscal Service is documented in the Agency's Accounting Manual and procedures. A financial oversight document outlines the assignment of activities between FHFA and Fiscal Service. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of the Safety and Soundness Act Section 1316 (g)(3). FHFA and the FHFA OIG also use the Interior Business Center (a service provider within the U.S. Department of Interior) and the National Finance Center (a service provider within the U.S. Department of Agriculture) for payroll and personnel processing, respectively. FHFA has streamlined accounting processes by electronically interfacing data from charge cards, investment activities, the Concur travel system, the procurement system, the Invoice Processing Platform payments system, the Interior Business Center payroll system, and the National Finance Center payroll system to FMS.

Federal Information Security Modernization Act of 2014 (FISMA 2014)

FISMA 2014 requires all federal agencies to develop and implement an Agency-wide Information Security Program to protect information and systems, including those provided or managed by another agency, contractor, or other source. In addition, FISMA 2014 mandates that agencies undergo an annual independent evaluation of Information Security Program and practices, as well as an assessment of compliance with FISMA 2014 requirements.

The FHFA OIG contracted with an independent external audit firm to conduct performance audits of FHFA and FHFA OIG's Information Security Programs and practices as per U.S. Generally Accepted Government Auditing Standards. Specifically, the objectives of the audit were to evaluate the effectiveness of FHFA's and FHFA OIG's Information Security Program and practices and respond to the Department of Homeland Security's FY 2022 Inspector General FISMA Reporting Metrics. The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from National Institute of Standards and Technology Special Publication 800-53, Revision 5, Security and Privacy Controls for Federal Information Systems and Organizations.[13]

The audit concluded that both FHFA and FHFA OIG's Information Security Programs operated an effective information security program and complied with FISMA 2014 and related information security policies and procedures, standards, and guidelines. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA OIG information security programs. The auditor reviewed and verified corrective actions taken by FHFA and FHFA OIG during the FY 2022 FISMA audit.

Prompt Pay

The Prompt Payment Act requires federal agencies to make timely payments to vendors and improve the cash management practices of the government by encouraging the use of discounts when they are justified. This also means that FHFA must pay its bills within a narrow window of time. In FY 2022, the dollar amount subject to prompt payment was $96.9 million. The amount of interest penalty paid in FY 2022 was $27.00.

Digital Accountability and Transparency Act of 2014

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

[13] **https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r4.pdf**.

FHFA STATEMENT OF ASSURANCE

Federal Housing Finance Agency
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400 7th Street, S.W.
Washington, D.C. 20219
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www.fhfa.gov

November 8, 2022

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2022

Federal Housing Finance Agency (FHFA) management is responsible for establishing and maintaining effective internal control and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, which include the following:

- Reliability of (financial and non-financial) reporting;
- Compliance with laws and regulations; and
- Effectiveness and efficiency of operations.

FHFA conducted its assessment of risk and internal controls in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations, as of September 30, 2022, were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

FHFA's internal control over financial reporting is a process effected by those charged with FHFA's governance and management, and by other personnel. The objectives of this process are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, including complementary user entity controls and entity level controls, in accordance with OMB 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, 2022, were operating effectively and no material weaknesses were found in the design or operation of internal controls over financial reporting.

The Housing and Economic Recovery Act of 2008 (HERA), 12 U.S.C. § 4516.g requires FHFA to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements. FHFA conducted a review of its financial management system in accordance with OMB Circular A-123, Appendix D. 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, 2022.

Sincerely,

Sandra L. Thompson
Director

Mark Kinsey
Chief Financial Officer

PERFORMANCE SECTION

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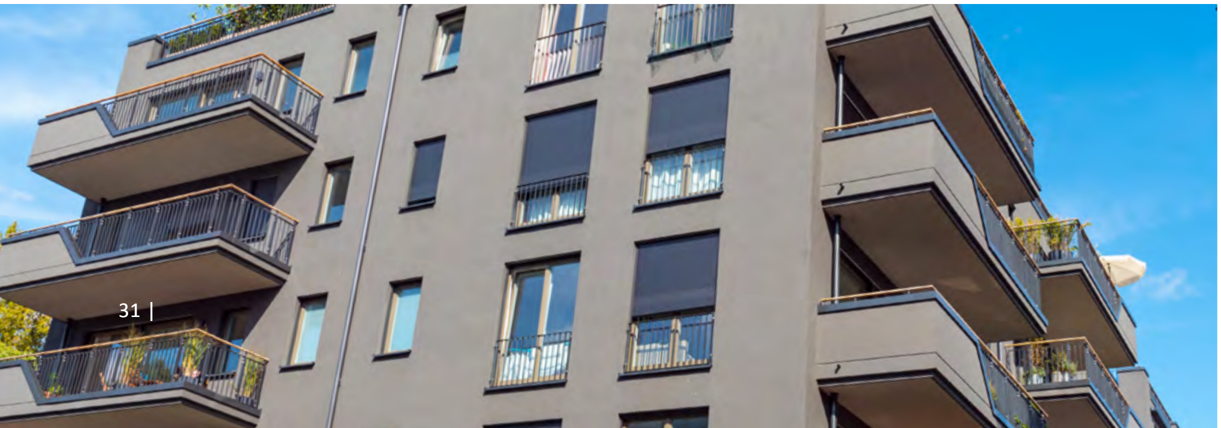
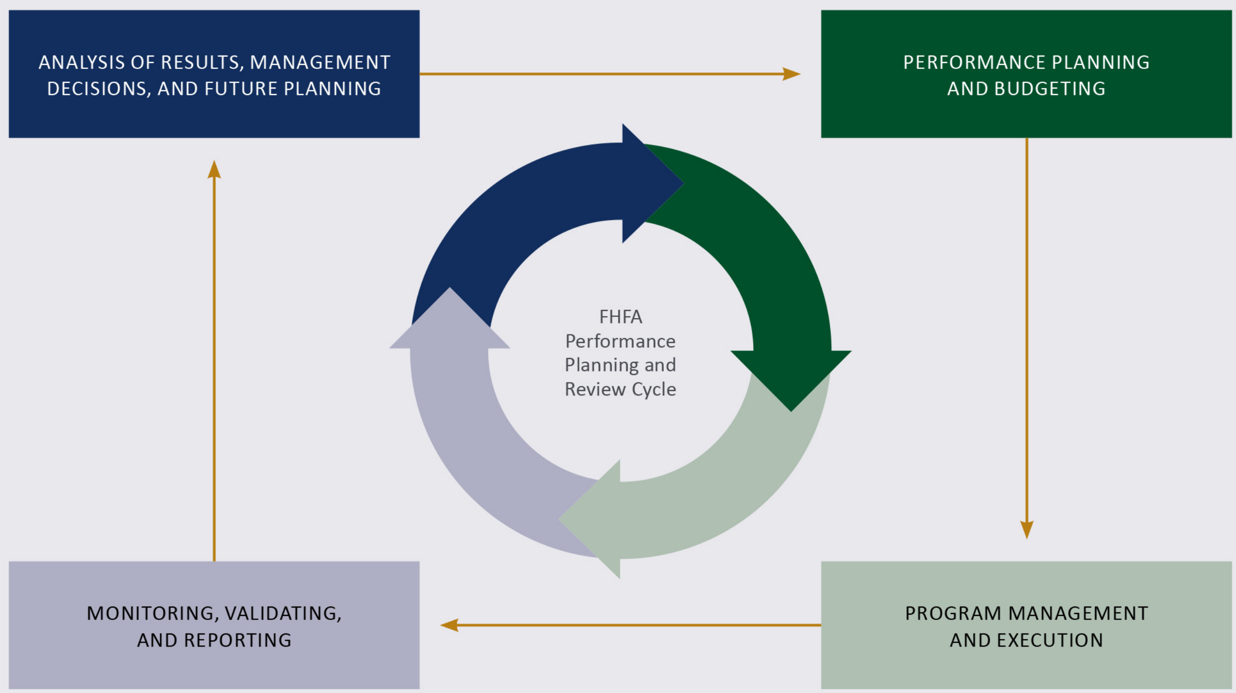


FHFA's Performance Planning and Review Process

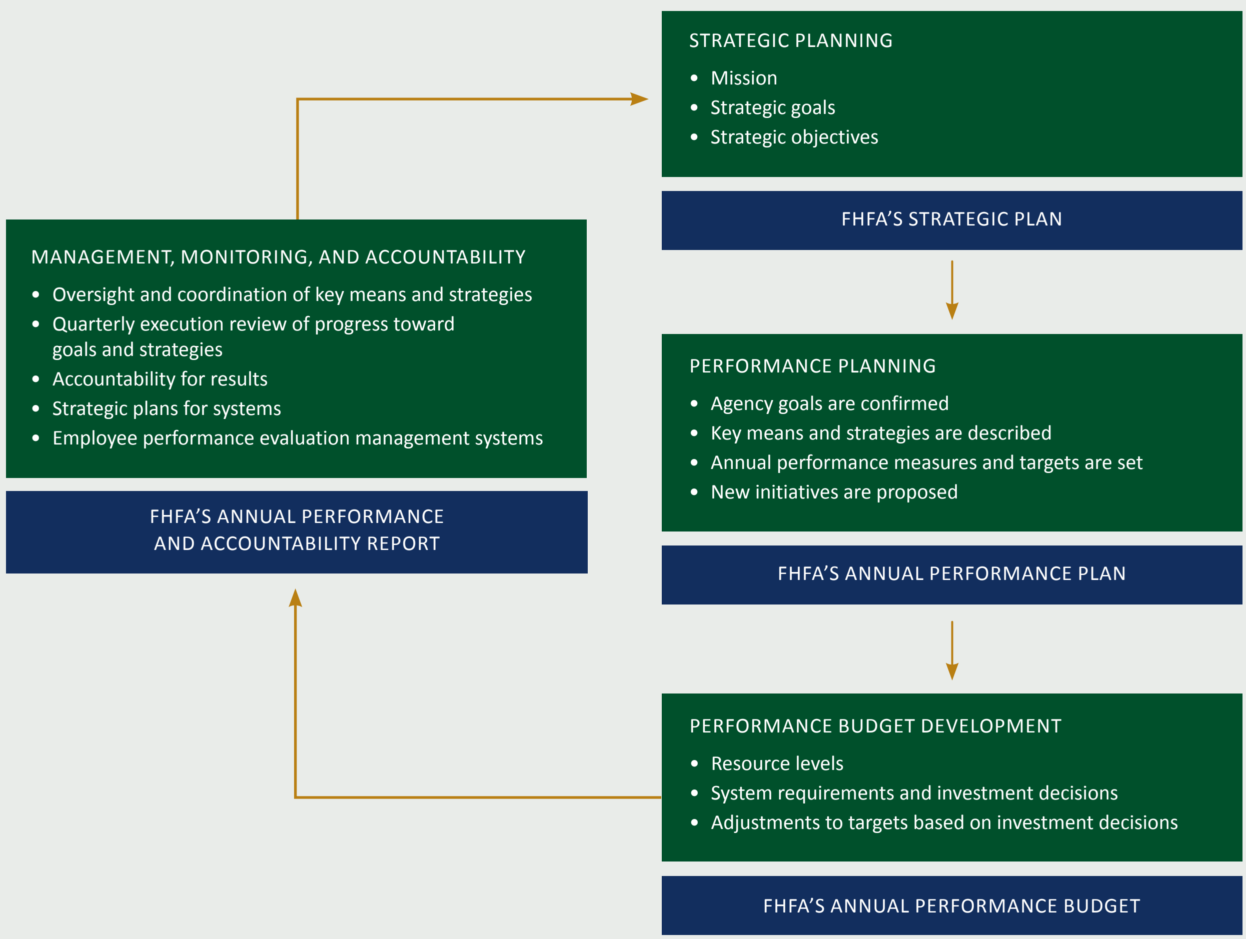
This section provides an overview of the Federal Housing Finance Agency's (FHFA) performance planning and review framework and processes. FHFA's performance management process involves a recurring cycle of planning; program management and execution; measurement, monitoring and evaluation; verification, validation of data, and reporting; and analysis of results that then influences management decisions and future planning. Figure 8 illustrates key elements of FHFA's approach to performance management.

Figure 8: FHFA's Performance Management Cycle



The first step in FHFA's performance management process is to develop the Agency's Strategic Plan, which identifies FHFA's strategic goals (longer-term outcome level results), strategic objectives (intermediate results that need to be achieved to accomplish the strategic goals), and means and strategies for achieving the strategic objectives. The Strategic Plan as outlined in FHFA's FY 2022 Annual Performance Plan (APP) forms the basis of this FY 2022 Performance and Accountability Report (PAR). The APP provides operational detail on how progress will be made toward the strategic goals and strategic objectives and identifies performance measures with annual targets to track progress toward the strategic objectives. FHFA conducts quarterly performance reviews of progress toward annual performance measure targets. Goal leaders submit quarterly data for the performance measures and targets for which they are responsible. Performance data on results are validated and verified, then reported in the annual PAR. FHFA's senior leadership reviews the quarterly reports to monitor progress toward achieving planned performance and strategic goals. Performance data are reviewed and analyzed throughout the year to monitor the Agency's progress in achieving planned performance levels and are used to influence management and planning decisions, which feed into the next annual performance planning process. Figure 9 illustrates FHFA's performance planning and review process.

Figure 9: FHFA's Performance Planning and Review Process



Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2022 PAR is complete and reliable, FHFA identifies, verifies, and validates the data for each performance measure. Each office or division collects performance data for its measures and reports the results in the Agency's performance tracking system. FHFA staff follows documented performance tracking and verification procedures to verify and validate the data provided to ensure that the information is accurate and complete. Agency staff review the information provided by offices on their performance measures on a quarterly basis, verifying and validating supporting data and documents for completeness, clarity, relevance, and accuracy. A quarterly report summarizing this information is sent to senior management officials.

During the performance tracking cycle, offices provide the following information for each performance measure:

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

FHFA has included a template of its Performance Measure Validation and Verification form in the Appendices on page 124.

Strategic Goal 1: Ensure Safe and Sound Regulated Entities Through World-Class Supervision

FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA conducts supervision using a risk-based approach to identify existing and emerging risks to the regulated entities, to evaluate overall effectiveness of each regulated entity's risk management systems and controls, and to assess compliance with laws and regulations applicable to the regulated entity.

STRATEGIC GOAL 1 – SELECTED ACCOMPLISHMENTS

FHFA achieved several accomplishments in Fiscal Year (FY) 2022 that contributed to progress toward the strategic goal. Selected FY 2022 accomplishments include:

Issuance of Advisory Bulletin on Artificial Intelligence/Machine Learning Risk Management

- On February 10, 2022, FHFA issued Advisory Bulletin (AB) 2022-02, Artificial Intelligence/Machine Learning (AI/ML) Risk Management. The AB articulates FHFA's supervisory expectations to maintain safe and sound practices for managing risks associated with the use of AI/ML at Fannie Mae and Freddie Mac (the Enterprises) and Common Securitization Solutions (CSS). The AB is grounded in FHFA's existing supervisory guidance on managing model, data, third-party, and other operational risks, as well as compliance risk.

  The AB provides detail into the supervisory expectations for managing heightened and unique risks posed by the use of AI/ML, such as leveraging existing enterprise-wide risk management and control frameworks, including those for model, data, technology, information security, third-party, and risk management, making appropriate enhancements to address the risk and control considerations highlighted in the AB. The AB recognizes AI/ML is an evolving field and encourages responsible innovation and use of AI/ML consistent with safe and sound operations.

  During the development of the AB, FHFA staff utilized various resources, such as National Institute of Standards and Technology guidance and activities to develop an AI Risk Management Framework indicative of industry best practices, the U.S. Government Accountability Office framework for AI accountability for federal agencies and other entities, and the Office of Management and Budget's (OMB) guidance for regulation of AI. Staff engaged in extensive outreach to other federal financial regulators to better understand plans for future guidance development and consistent risk management expectations across regulated institutions. Staff also reviewed the Enterprises' existing approaches to AI/ML risk management and efforts to incorporate them into the risk management structure for model and other operational risks.

Transparent, Repeatable, and Sustainable Supervision Program

- FHFA introduced a collaborative effort to identify high-level Supervisory Priorities, which are emerging supervisory issues and areas for special focus during the upcoming year. The Supervisory Priorities were informed by prior Reports of Examination, outstanding Matters Requiring Attention (MRAs), Enterprise and CSS Supervisory Risk Assessments, and supervisory knowledge. FHFA also considered information included in publications from other federal regulatory agencies that identified risks facing their regulated institutions and outlined their priorities for supervision. The work to address the Supervisory Priorities is

completed through examinations, ongoing monitoring, risk analysis and monitoring, and, when appropriate, through horizontal reviews.[14] The Agency provides the Supervisory Priorities to the regulated entities to implement transparent supervision.

- FHFA also implemented a Supervisory Taxonomy (Taxonomy) to inform the Division of Enterprise Regulation's (DER) supervisory planning process. The Taxonomy is an inventory of common and comprehensive risk categories and processes of supervisory interest at the Enterprises and CSS, aligned to the Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk (CAMELSO) rating framework and makes the risk-based approach to examination planning and other supervisory activities more efficient. Its development involved a comprehensive review of existing examination guidance, as well as the Enterprises' Corporate Risk Taxonomies, DER's historical Examination Plans and Office Plans, and processes for risk taxonomy used by other federal financial regulators.
- Finally, FHFA enhanced its risk assessment process to support the supervisory program as a key input to updates to the Taxonomy and to the supervisory planning process. By performing the risk assessments, FHFA assesses risk exposure in each of the CAMELSO component areas and forms conclusions on FHFA's view of the quantity of risk, direction of risk, quality of risk management, and direction of risk management of the Enterprises and CSS.

Capital Rule Amendments

- In FY 2022, FHFA enhanced its Enterprise Regulatory Capital Framework (ERCF) through three separate final rules that:
    1) Refined the leverage buffer and risk-based capital treatment of credit risk transfers,
    2) Added public disclosure requirements, and
    3) Required the submission of annual capital plans to FHFA.

These changes support the safety and soundness of the Enterprises and are generally consistent with the banking regulatory framework.

The first amendment in February 2022 replaces the fixed leverage buffer in ERCF with a dynamic leverage buffer equal to 50 percent of an Enterprise's stability capital buffer. The rule also reduces the floor on the risk weight assigned to any retained credit risk transfer exposure and removes the overall effectiveness adjustment. These amendments allow the Enterprises to

[14] A horizontal review occurs when FHFA conducts the same risk analysis or risk-based review at both Enterprises.

better support the housing market through the economic cycle and provide the necessary incentives to transfer credit risk.

The second amendment in May 2022 adds public disclosure requirements for the Enterprises, which includes quarterly quantitative and annual qualitative disclosures related to risk management, corporate governance, capital structure, capital requirements, and buffers under the standardized approach. Allowing market participants access to this information promotes transparency and encourages sound risk management practices at the Enterprises.

The third amendment in June 2022 requires the Enterprises to submit annual capital plans to FHFA and provide prior notice for certain capital actions. The rule also incorporates the stress capital buffer determination into the capital planning process. The capital plans must include an assessment of the expected sources and uses of capital over the planning horizon under a range of Enterprise and FHFA scenarios, a description of all planned capital actions, and any changes to the business plan that materially impact capital.

Enterprises' Credit Risk Transfer Activities in 2022

- Under the 2022 Conservatorship Scorecard, FHFA required both Enterprises to continue to transfer credit risk to private markets in a commercially reasonable and safe and sound manner, including actively pursuing sales of less liquid assets such as non-performing and re-performing loans. In February 2022, FHFA amended the ERCF to lessen the disincentives for engaging in Credit Risk Transfer (CRT) transactions and to facilitate an environment where leverage is not the binding capital constraint for the Enterprises, and they have incentives to distribute acquired credit risk to private investors through CRT rather than to buy and hold that risk.

  As a result, in FY 2022, both Enterprises actively continued to transfer a meaningful amount of single-family credit risk to the private sector through both securities issuances and insurance/reinsurance CRT transactions. Additionally, both Enterprises continued to sell single-family re-performing and non-performing loans, effectively reducing less liquid assets and the number of delinquent loans held in their inventories, as well as further transferring credit risk to the private sector.

- In FY 2022, CRT also continued to be an integral part of the multifamily business models of both Enterprises. Freddie Mac's program continued to transfer a meaningful amount of credit risk through its multifamily securitization program that focuses on senior/subordinate structures via capital markets transactions. Fannie Mae's program continued to transfer a meaningful portion of credit risk through its pro-rata risk sharing directly with lenders. Additionally, in FY 2022, both Enterprises executed multifamily CRT insurance/reinsurance transactions to further transfer multifamily credit risk to the private market.

Enhanced Monitoring of Enterprises' Boards of Directors

- FHFA, under its conservatorship authorities, enhanced its monitoring of the Enterprises' boards of directors. Processes were initiated for the review of board and board-level committee meeting materials and production of board summaries. These summaries were provided in preparation for the FHFA Director's quarterly meetings with the Enterprises' boards of directors and discussion of FHFA priorities. Key highlights from FHFA conservatorship attendance at board and board committee meetings were also developed. Collectively, these processes enhanced conservatorship evaluation of effectiveness of the Enterprises' boards in conducting their oversight function of Enterprise management. A board's ability to effectively challenge management, for example on strategies, objectives, decisions, policies, risk management, or other behaviors, is critical to the board's corporate oversight function, which includes ensuring alignment of management behavior and business outcomes with board objectives.

STRATEGIC OBJECTIVE 1.1: ENSURE THE SAFETY AND SOUNDNESS OF THE REGULATED ENTITIES THROUGH RISK-FOCUSED SUPERVISION

FHFA assesses the safety and soundness of the regulated entities' operations through annual examinations, targeted examinations, ongoing monitoring, and reviews, as appropriate. FHFA uses a uniform examination rating system to assign ratings to the Enterprises, the Federal Home Loan Banks (FHLBanks), and the Office of Finance (OF). FHFA annually assigns each regulated entity a composite rating for the overall condition of the entity. In FY 2022, FHFA monitored six measures for Strategic Objective 1.1 and met the targets for all six measures. Table 6 reports progress on these measures.

Table 6: Strategic Objective 1.1 – Summary of Performance Measures and Results

Strategic Objective 1.1: Ensure the safety and soundness of the regulated entities through risk-focused supervision							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2022	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.1b: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.2a: Approve reports of examination by March 31, 2022, for the Enterprises	MET	NOT MET	MET	MET	MET	100 percent of the time	MET
1.1.2b: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	MET	MET	MET	MET	MET	100 percent of the time	MET

PERFORMANCE MEASURE 1.1.1A: Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2022

PERFORMANCE MEASURE 1.1.1B: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks

Risk-based examinations focus FHFA resources on areas of greatest risk. Risk-based scope documents communicate important areas of focus to staff and aid in the overall examination planning process. FHFA met this measure for FY 2022 as explained below.

- **The Enterprises:** FHFA examiners examine each Enterprise on a continuous basis. DER maintains a written risk-based examination plan for each Enterprise for every annual examination cycle. To conduct risk-focused supervision and examinations, the examination plans should be approved prior to the commencement of the upcoming examination cycle. The target date for approval of the 2022 examination plans was

January 31, 2022. Each plan enumerates examination activities for different risk management and business areas. Examination areas include credit risk, market risk, operational risk, model risk, and governance. Examination plans are reviewed during the examination cycle and may be amended to reflect changes in risk profile or the Enterprise's operations. The 2022 examination plans for Fannie Mae and Freddie Mac were approved by the DER Deputy Director on December 31, 2021.

- **FHLBanks and OF:** FHFA examines each of the FHLBanks and OF annually on a CY basis. Examinations have specified beginning and end dates and are generally performed at a pace of three entities each quarter. The Division of Federal Home Loan Bank Regulation's (DBR's) examination plans are called scope memoranda, which include analyses of the institution's risks, a schedule of examination work, and details regarding staff responsibilities. For FY 2022, scope memoranda were in place prior to the start of every FHLBank and OF examination.

PERFORMANCE MEASURE 1.1.2A: Approve reports of examination by March 31, 2022, for the Enterprises

PERFORMANCE MEASURE 1.1.2B: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks

FHFA communicates supervisory results, findings, and expectations for remedial action to the Enterprises, the FHLBanks, and OF through supervisory correspondence and reports of Examination (ROEs). ROEs summarize key examination findings for the prior year and include ratings assigned in accordance with the CAMELSO ratings framework. In FY 2022, FHFA met the target dates for approving ROEs for the Enterprises as well as the FHLBanks and OF, ensuring timely documentation of FHFA's overall assessment of the safety and soundness of the regulated entities' operations and contributing to achievement of Strategic Objective 1.1.

- **The Enterprises:** DER summarizes the Agency's view of the safety and soundness of the Enterprise's operations based on examination work of the previous year. DER communicates and explains the CAMELSO composite and component ratings and lists all outstanding MRAs. DER documents this overall assessment of the safety and soundness of Enterprise operations by preparing an annual ROE for each Enterprise. The target date for approval by the Deputy Director for each ROE is March 31. FHFA approved the ROEs for Fannie Mae and for Freddie Mac by the target date of March 31, 2022.
- **FHLBanks:** ROEs summarize DBR's examination conclusions and principal findings, communicating them to the Bank and outlining supervisory expectations. The Deputy Director for DBR approves each Report of Examination within 90 days of the exit meeting that concludes examination work. DBR assesses this measure's status each quarter, typically with three ROEs per quarter. During 2022, the DBR Deputy Director approved each ROE within 90 days of the exit meetings.

FINANCIAL CONDITION OF THE ENTERPRISES

Under the Preferred Stock Purchase Agreement (PSPA), the Enterprises are constrained by their ability to build capital while in conservatorship. In September 2019, FHFA and the U.S. Department of the Treasury (Treasury) agreed to remove the existing requirement that the Enterprises pay out to Treasury any excess capital beyond a combined $6 billion as dividend to the senior preferred shares, a provision also known as the net worth sweep. As amended in September 2019, FHFA and Treasury agreed to increase the Capital Reserve Amount to $25 billion for Fannie Mae[15] and $20 billion for Freddie Mac[16] beginning with the July 1, 2019 dividend period. In January 2021, FHFA and Treasury again amended the PSPAs to effectively end the net worth sweep through a Letter Agreement that further increased the amount of retained earnings each Enterprise could keep as of October 1, 2020 to the amount of adjusted total capital necessary to meet the capital requirements and buffers set forth in the final capital rule.[17] Consequently, the Enterprises' net worth increased to $58.8 billion and $35.2 billion for Fannie Mae and Freddie Mac, respectively, by the end of FY 2022. However, the agreement also increases the liquidation preference[18] of the Senior Preferred Stock by the amount of any increase in the Enterprises' net worth each quarter. In September 2021, FHFA and Treasury suspended certain provisions added to the PSPA in January 2021.[19] The suspended provisions include limits on the Enterprises' cash windows (loans acquired for cash consideration), multifamily lending, loans with higher risk characteristics, and second homes and investment properties. The Enterprises will continue to build capital under the continuing provisions of the PSPAs. FHFA also continues to direct the Enterprises to operate in a safe and sound manner consistent with their statutory mission and to foster resilient housing finance markets given prevailing housing market conditions, which include elevated demand relative to available inventory.

The housing market remained relatively strong in the first half of FY 2022, as housing demand remained elevated despite rising mortgage rates from historically low mortgage rates available during the COVID-19 pandemic. The prolonged low interest rate environment combined with a shortage of available housing, contributed to strong house prices early in FY 2022. However, a higher interest rate environment emerged in the second quarter of FY 2022 (January 2022 to March 2022), leading to a significant decrease in single-family refinance activity and overall lower new mortgage originations.

Such market conditions have a significant effect on the Enterprises' net interest income. Lower refinance volume results in lower amortization income at the same time as lower new originations reduce net interest income from the guarantee book of business, both of which put downward pressure on the Enterprises' net interest income.

The Enterprises' seriously delinquent single-family loans, defined as loans that are more than 90 days overdue, decreased in FY 2022 as borrowers exit forbearance due to improving economic conditions a year on from the COVID-19 pandemic. As of September 30, 2022, the single-family serious delinquency rates were slightly elevated from pre-COVID levels at 0.69 percent and 0.67 percent for Fannie Mae and Freddie Mac, respectively. By comparison, on September 30, 2021, the single-family serious delinquency rates were 1.62 percent and 1.46 percent, respectively, for Fannie Mae and Freddie Mac. FHFA continues to monitor the Enterprises' assessment of the effects of COVID-19 and the related risk management practices to ensure identification, monitoring, and management of related credit risks.

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15 **https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/9-27-19_FNMA-Capital-Agreement.pdf**.

16 **https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/9-27-19_FRE-Capital-Agreement.pdf**.

17 In November 2020, FHFA released a final capital rule that establishes the ERCF as a new regulatory capital framework for the Enterprises. The final capital rule became effective on February 16, 2021.

18 Refer to the Fannie Mae and Freddie Mac January 14, 2021, letter agreements, available on the Treasury website, for more details.

19 **https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-and-Treasury-Suspending-Certain-Portions-of-the-2021-Preferred-Stock-Purchase-Agreements.aspx**.

The Enterprises have two primary sources of revenue: 1) guarantee fees on mortgages held by consolidated trusts holding Enterprise MBS, and 2) the difference between the interest income earned on the assets in the Enterprises' retained mortgage portfolios and the interest expense paid on the debt that funds those assets. In FHFA's fiscal year 2022, as in prior years,[20] the Enterprises earned the majority of their net income from guarantee fees rather than from other sources of net interest income. This is primarily driven by reduction in the size of the retained portfolios in accordance with the requirements of the PSPAs between Treasury and the Enterprises.

The Enterprises' net interest income continues to be negatively affected by the declining size of retained portfolios and lower amortization income as the U.S. economy enters a higher interest rate environment. In addition, future elevated CRT issuances could further reduce income while offering protection from economic stressed losses by transferring credit risk exposure away from taxpayers. Smaller retained portfolios and CRT issuances meet conservatorship objectives. The terms of the PSPAs require the Enterprises to reduce the size of their retained mortgage portfolios, which reduces the credit risk of these portfolios. As conservator, FHFA has also required the Enterprises to conduct CRT transactions that reduce risk to taxpayers by sharing credit risk with the private sector.

The Enterprises' earnings could continue to experience some volatility in the future as market conditions change. Market volatility could result in fluctuations in the estimated fair value of the financial instruments that are marked to market through earnings. These financial instruments, which include derivatives and certain securities, could fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage and credit spreads, and implied volatility. To minimize the impact of interest rate fluctuations and mitigate the volatility in its financial results, Freddie Mac and Fannie Mae implemented hedge accounting in 2017 and 2021, respectively.

The Enterprises' earnings continue to be highly sensitive to fluctuations in macroeconomic conditions, housing prices, and interest rates. For example, given the large size of the Enterprises' guarantee portfolios, small changes in home prices may have a significant impact on financial performance through changes to loan loss reserves. In addition, the continued reduction in the retained portfolios will reduce the Enterprises' interest-earning assets.

Table 7: Enterprise Financial Results Summary of First 3 Quarters of 2022 and Full Year 2021
(dollars in billions)

	Fannie Mae				Freddie Mac			
	2022			2021 Annual	2022			2021 Annual
	Q1	**Q2**	**Q3**		**Q1**	**Q2**	**Q3**	
Net Income (Loss)	$4.4	$4.7	$2.4	$22.2	$3.8	$2.5	$1.3	$12.1
Comprehensive Income (Loss)*	$4.4	$4.6	$2.4	$22.1	$3.7	$2.4	$1.1	$11.6

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

[20] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA-2021-Annual-Report-to-Congress.pdf.

FINANCIAL CONDITION OF THE FHLBANKS

The financial condition and performance of the FHLBanks was sound during the 12-month period ending September 30, 2022. All 11 FHLBanks were profitable, with a combined net income of $2.5 billion on $4.3 billion of net interest income after provision for credit losses, with improved performance from the $2.0 billion and $4.0 billion earned, respectively, in the prior 12-month period. The FHLBanks recaptured $54 million of losses through interest income previously taken as credit other-than-temporary impairments. Operating expenses totaled $1.2 billion for the 12-month period that ended September 30, 2022. FHLBank advances increased by $305.0 billion over the past 12 months, resulting in $655.0 billion of advances outstanding on September 30, 2022. Advances represented 59.7 percent of total FHLBank System assets. The balance of mortgages purchased from FHLBank members was $56.0 billion, or 5.1 percent of total FHLBank System assets. During the 12-month period ending September 30, 2022, the FHLBanks purchased $10.4 billion of mortgages and collected principal payments of $10.2 billion. The FHLBanks' remaining assets were primarily investments, which include liquidity assets,[21] MBS, and other investments. Investments totaled $380.2 billion and represented 34.6 percent of FHLBank System assets. Of the total, liquidity assets (including cash and Treasury securities) represented $232.4 billion,[22] while total MBS was $128.9 billion. Most of the MBS portfolio was agency MBS ($118.3 billion or 91.8 percent), with only $1.7 billion (1.3 percent) of private-label MBS. Aggregate consolidated obligations, which is the debt issued jointly and used by each FHLBank to fund its operations, totaled $1.0 trillion as of September 30, 2022, of which 44.4 percent were discount notes. Consolidated obligations with a remaining contractual maturity of less than one year by par value represented 68.4 percent of total consolidated obligations. Table 8 provides a summary of the FHLBanks' financial results through September 30, 2022.

Table 8: FHLBanks' Financial Results Summary of First 3 Calendar Quarters of 2022 and Full Calendar Year 2021
(in $ millions)

	Net Income (Loss)*			
	2022			2021 Annual
	Q1	Q2	Q3	
FHLBank of Boston	28	41	60	69
FHLBank of New York	57	76	130	266
FHLBank of Pittsburgh	19	37	74	86
FHLBank of Atlanta	36	27	47	133
FHLBank of Cincinnati	16	41	91	42
FHLBank of Indianapolis	29	32	47	94
FHLBank of Chicago	95	91	95	275
FHLBank of Des Moines	54	99	132	206
FHLBank of Dallas	41	66	95	164
FHLBank of Topeka	50	50	67	161
FHLBank of San Francisco	78	48	80	287
FHLBank System Total Net Income	**503**	**609**	**916**	**1,783**

** Numbers may not add due to rounding*

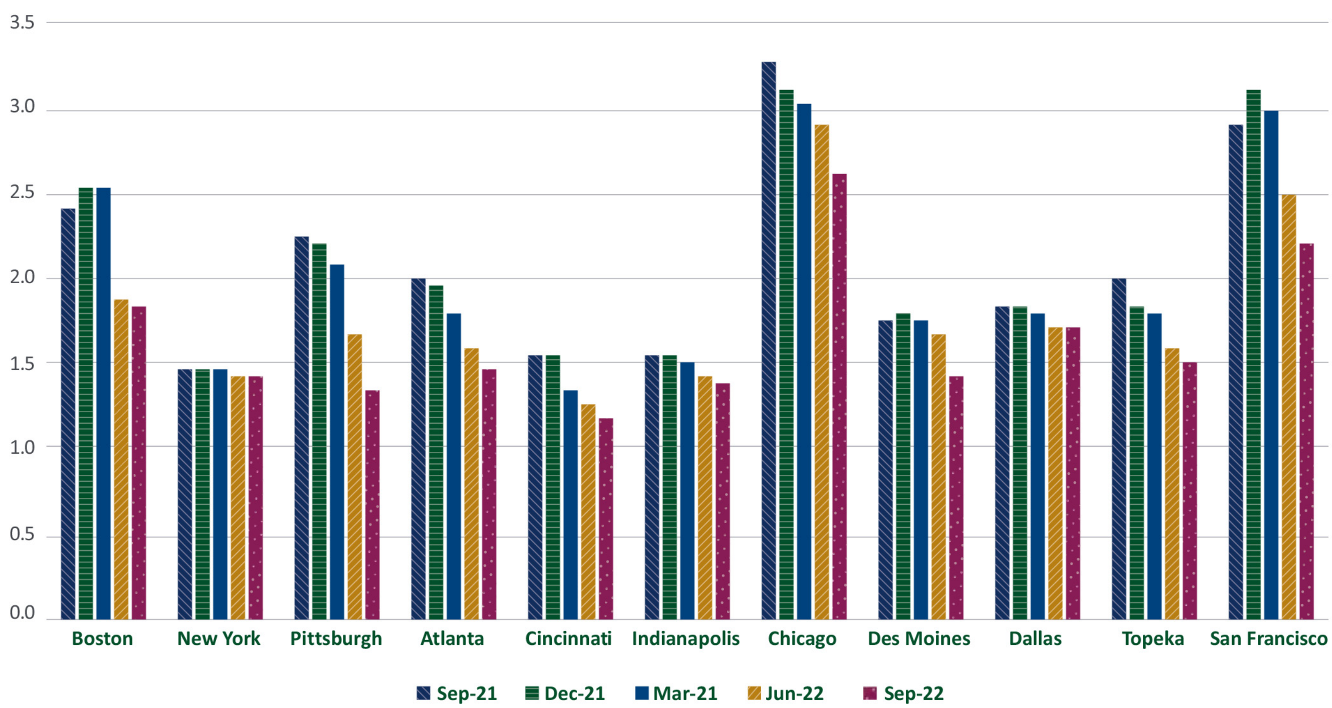
[21] Liquidity assets primarily include federal funds, reverse repurchase agreements, Treasury securities, and interest-bearing deposits.

[22] On January 1, 2019, FHFA began counting Treasury securities toward the FHLBanks liquidity as part of the new FHLBank Liquidity Guidance in Advisory Bulletin 2018-07.

PERFORMANCE MEASURE 1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank

The Market Value of Equity (MVE) to par value of capital stock (PVCS) ratio is an indicator of each FHLBank's condition. A ratio of one or above is desirable because it reflects a FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. FHFA uses FHLBank reporting by way of the Call Report System to verify that the MVE-to-par ratio is greater than or equal to one at each FHLBank at quarter end. For each quarter during FY 2022, each FHLBank reported market value information to FHFA for the preceding quarter. All FHLBanks reported MVE greater than the PVCS.

Figure 10: Quarterly MVE to PVCS Ratios



PERFORMANCE MEASURE 1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis

Capital adequacy is a critical component of safe and sound FHLBanks. FHFA determines the capital classification for each FHLBank for the prior quarter and communicates it to the Bank. These communications are made via letter and were in accordance with Subpart A of Part 1229 of FHFA's rule, "Capital Classifications and Prompt Corrective Action." In each quarter of 2022, FHFA deemed all FHLBanks "adequately capitalized" for the prior quarter and communicated these classifications to the FHLBanks via letter.

STRATEGIC OBJECTIVE 1.2: DEVELOP AND MAINTAIN A WORLD-CLASS SUPERVISION PROGRAM

FHFA conducts ongoing risk analysis, examinations, and review and monitoring. FHFA develops and maintains highly skilled examiners and continues to modernize and improve its supervision practices, processes, and tools. In FY 2022, FHFA monitored two measures for Strategic Objective 1.2 and met the targets for both of these measures. The table below reports progress on these measures.

Table 9: Strategic Objective 1.2 – Summary of Performance Measures and Results

Strategic Objective 1.2: Develop and maintain a world-class supervision program							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
1.2.1a: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	MET	NOT MET	MET	MET	MET	90 percent of the time	MET
1.2.1b: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	NOT MET	MET	MET	MET	MET	90 percent of the time	MET

PERFORMANCE MEASURE 1.2.1A: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes

PERFORMANCE MEASURE 1.2.1B: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes

Where there is a significant supervisory concern or violation of law or regulation by one of the regulated entities, FHFA may issue a MRA that requires the entity's board of directors and/or management 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. The FY 2022 target for Performance Measure 1.2.1 for both the Enterprises and the FHLBanks was for FHFA to determine that the regulated entities have satisfactorily addressed safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes 90 percent of the time.

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

- **The Enterprises:** The Enterprises address MRAs by submitting proposed remediation plans to FHFA for review. Enterprise management executes the actions required in each remediation plan and submits documentation demonstrating remediation activities to the Enterprise's internal audit function for validation. For each MRA for which an Enterprise submits a closure package, which includes the internal audit function's validation, to FHFA between June 1 of the prior fiscal year and May 31 of the current fiscal year, FHFA reviews the Enterprise's actions and the internal audit function's validation by the end of the fiscal year to determine whether the Enterprise has satisfactorily addressed the MRA. In FY 2022, the Enterprises satisfactorily addressed 93 percent of their safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes.

- **FHLBanks and OF:** For each FHLBank and for OF, FHFA reviews satisfactory resolution of MRAs in conjunction with FHFA's annual examination cycle. FHFA gathers information about MRA resolution in the course of annual exam work and determines whether the Bank or OF addressed MRAs outstanding prior to the examination within agreed upon timeframes or if it is sufficiently on track to address them within the established remediation plan. At FHLBank and OF examinations conducted during FY 2022, FHFA followed up on outstanding MRAs to determine whether the entities had remediated them or if they were making progress according to their remediation plans. During the year, DBR found that the FHLBanks and OF satisfactorily addressed 97 percent of their MRAs.

STRATEGIC OBJECTIVE 1.3: RESPONSIBLY END THE CONSERVATORSHIPS OF THE ENTERPRISES

FHFA continues to focus on managing the ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, as well as reducing taxpayer risk from Enterprise operations. In FY 2022, FHFA monitored two performance measures for Strategic Objective 1.3 and met the targets for both of these measures. The table below reports progress on these measures.

Table 10: Strategic Objective 1.3 – Summary of Performance Measures and Results

Strategic Objective 1.3: Responsibly end the conservatorships of the Enterprises							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
1.3.1: Issue a proposed rule on Enterprise disclosures under the Enterprise Regulatory Capital Framework	N/A[23]	N/A	N/A	N/A	N/A	FY 2022	MET
1.3.2: Issue a proposed rule on Enterprise Capital Planning	N/A	N/A	N/A	N/A	N/A	FY 2022	MET

[23] "N/A" or "not available" means that FHFA did not report data in prior PARs for the marked measures.

PERFORMANCE MEASURE 1.3.1: Issue a proposed rule on Enterprise disclosures under the Enterprise Regulatory Capital Framework

In December 2020, FHFA published a capital framework for the Enterprises. The ERCF is designed to ensure each Enterprise is capitalized to remain a viable going concern both through and after a severe economic downturn and is positioned to fulfill its statutory mission to provide stability and on-going assistance to the secondary mortgage market across the economic cycle. However, the original ERCF included only minimal public disclosure requirements related to several high-level, aggregate measures. To fill this gap in the framework, FHFA proposed a regulation in November 2021 that would expand the disclosure requirements set forth in the ERCF in order to improve market discipline and encourage sound risk-management practices at the Enterprises through meaningful public disclosure. The proposed rule would implement disclosure requirements that align with many of the public disclosure requirements for large banking organizations in the U.S. banking framework related to risk management, corporate governance, and regulatory capital, including risk-weighted assets calculated under the ERCF's standardized approach, statutory capital requirements, supplemental capital requirements, and capital buffers. The quarterly disclosures would be both quantitative and qualitative in nature, covering credit, market, and operational risk, as well as leverage capital requirements and buffers. FHFA published the notice of the proposed rulemaking **in the Federal Register** on November 3, 2021, and the amendments were adopted in final form on May 26, 2022.

PERFORMANCE MEASURE 1.3.2: Issue a proposed rule on Enterprise capital planning

Capital planning builds on the supervisory expectation that financial institutions should have processes in place to incorporate forward-looking projections of revenue and losses to monitor and maintain their internal capital adequacy. A proposed rulemaking for Enterprise capital planning would support sound capital management and be consistent with the regulatory framework for large banks. The rule would require each Enterprise to develop and maintain a capital plan. The annual plans would assess the expected uses and sources of capital, by estimating revenue, losses, and capital levels over a defined planning horizon, under both expected and stressful conditions, including scenarios provided by FHFA and at least one scenario developed by the Enterprise. In 2021, FHFA asked each Enterprise to submit a capital plan in substantially the same form as would be required under a rulemaking. The first capital plans were submitted to the Agency in September 2021. FHFA published the proposed rule in the Federal Register on December 27, 2021, and the rule was adopted in final form on June 1, 2022.

Strategic Goal 2: Foster Competitive, Liquid, Efficient, and Resilient (CLEAR) National Housing Finance Markets

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. Achieving a liquid, healthy housing finance market throughout the country also requires improved access to responsible mortgage credit across different market segments of creditworthy borrowers. FHFA is committed to fair and equitable access to the regulated entities' financial services by qualified institutions and creditworthy borrowers.

STRATEGIC GOAL 2 – SELECTED ACCOMPLISHMENTS

FHFA achieved several accomplishments in FY 2022 that contributed to progress toward the strategic goal.

Published Data and Analysis on Mission Activities

- In addition to the fair lending data included within the Mission Report published in June[24], FHFA built upon its inaugural fair lending data release by providing new and updated information on single-family Enterprise-acquired applications and loans, subset by race and ethnicity. This information provides key data over time, highlighting important trends that may serve as the basis for further research, reviews, and policy interventions.

Strengthened Fair Lending Toolbox

- In FY 2022, FHFA continued to build and advance its fair lending program to ensure fair lending and equity considerations are integrated into the mission and business activities of its regulated entities. FHFA worked closely with the Enterprises to assess how fair lending considerations are incorporated into policy development, new initiatives, and ongoing programs at each Enterprise and identified ways to strengthen integration of fair lending considerations throughout key business processes.
- FHFA also issued **Fair Lending and Fair Housing Compliance Examination Policies and Procedures for the Enterprises**. The Operational Procedures Bulletin (OPB) describes FHFA's internal procedures for conducting fair lending examinations pursuant to FHFA's Policy Statement on Fair Lending and the related AB. The OPB comprehensively outlines FHFA's fair lending supervisory risk assessments, the examination process, roles and responsibilities, default timeframes, and remediation oversight. Finalization of this bulletin provides fair lending examination staff with processes and procedures for conducting fair lending examinations.
- FHFA issued its annual fair lending oversight letters to each Enterprise communicating FHFA's holistic view of fair lending supervision and oversight. The letters summarize fair lending supervisory matters that FHFA engaged in with each Enterprise in Calendar Year (CY) 2021, including targeted examinations and ongoing monitoring. The oversight letters discuss ongoing and emerging fair lending risk issues that the Enterprises should continue focusing on in the coming year. Identified risk issues include implementation of the **Equitable Housing Finance Plans**, appraisals and valuations, and underwriting model overlays and overrides.
- FHFA increased its engagement with the FHLBanks by conducting outreach and developing regular "office hours." The "office hours" provide FHLBanks an opportunity to ask questions, receive technical assistance, and increase collaboration with FHFA.

[24] **https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA-2021-Mission-Report.pdf**.

Mandatory Adoption of the Supplemental Consumer Information Form

- In October 2021, the Enterprises introduced the Supplementary Consumer Information Form (SCIF) (Fannie Mae/Freddie Mac 1103[25]), with standardized questions about homeownership education, housing counseling, and language preference, which lenders could use voluntarily to collect borrower information. In May 2022, at FHFA's instruction, the Enterprises announced that lenders will be required to use the SCIF as part of the application process for loans that will be sold to the Enterprises, so lenders can better understand borrower needs during the home buying process.

  Lenders will present the SCIF questions to borrowers and report any data collected from the SCIF to the Enterprise purchasing the loan. Lenders will be required to adopt these changes and reporting requirements for loans with application dates on or after March 1, 2023. Responses by borrowers to the preferred language question in the SCIF will remain voluntary.

  Translated versions of the SCIF are available in Spanish, traditional Chinese, Vietnamese, Korean, and Tagalog and can be accessed via Mortgage Translations, **https://www.fhfa.gov/MortgageTranslations**. Mortgage Translations—created by FHFA, Fannie Mae, and Freddie Mac—is a clearinghouse of translated mortgage documents and resources to assist lenders, servicers, housing counselors, and others in helping mortgage borrowers who have limited English proficiency.

Assessed COVID-19 Forbearance Exits to Inform Ongoing Policy Response

- **Single-Family:** Since the beginning of the COVID-19 pandemic in 2020, FHFA has been closely monitoring COVID-19 forbearance plans and loss mitigation outcomes to inform future policy refinement. Since March 2020, approximately 2.25 million COVID-19 forbearance plans were initiated on Enterprise loans, and as of June 2022 about 4 percent remain in active forbearance. Approximately 20 percent of all COVID-19 forbearance plans were able to self-cure through reinstatement or remain current. Upon exiting forbearance, nearly 35 percent of loans successfully performed under a loss mitigation solution, and a majority (roughly 600,000 borrowers) were able to bring their loans current and continue performing with a COVID-19 Payment Deferral. Since the start of 2022, FHFA has seen an increase in the proportion of borrowers exiting forbearance plans into a COVID-19 Flex Modification, which offers expanded eligibility for borrowers who may have reached the previous modification limit under the standard Flex Modification and may offer a rate reduction. Lastly, some 40 percent of borrowers entering into a COVID-19 forbearance plan have taken advantage of the recent home price appreciation to access their equity by selling or refinancing their homes, and a small proportion of loans, nearly 6 percent of COVID-19 forbearance plan exits, remain delinquent as of June 2022.
- **Multifamily:** FHFA worked closely with the Enterprises to assess the impact of their multifamily COVID-19 response, which included the multifamily COVID-19 forbearance programs, as well as policies regarding loan originations, loan servicing, and property management (particularly around tenant protections). Currently, the Enterprises' multifamily COVID-19 forbearance programs remain available to property owners. However, demand for multifamily forbearance has dropped considerably over the past year with very few loans remaining in active forbearance as of September 30, 2022.

Published Final Enterprise Housing Goals Rule for 2022-2024 Single-Family Housing Goals and 2022 Multifamily Housing Goals

- The Safety and Soundness Act requires FHFA to establish annual housing goals for Enterprise purchases of both single-family and multifamily mortgages. In December 2021, FHFA published a final rule establishing benchmark levels for each of the single-family housing

[25] SCIF forms for Freddie Mac and Fannie Mae can be found at **SCIF Form 1103 Form** (**freddiemac.com**) and **Supplemental Consumer Information Form** (**fanniemae.com**).

goals and subgoals for 2022-2024 and benchmark levels for the multifamily housing goals for 2022. The final rule included two new single-family subgoals to replace the previous low-income areas subgoal. The new minority census tract subgoal is designed to focus on providing mortgage financing for low- and moderate-income borrowers in communities of color. The minority census tract goal will encourage the Enterprises to develop business strategies aimed specifically at meeting homeownership needs in communities of color and reflects FHFA's commitment to improving access to credit in these communities. The new low-income census tract subgoal continues to target loans in low-income neighborhoods.

Published Proposed Enterprise Multifamily Housing Goals Rule for 2023 and 2024

- In July 2022, FHFA proposed new benchmark levels for the multifamily housing goals covering 2023 and 2024. The proposed rule would measure Enterprise performance as the percentage of affordable units in multifamily properties financed by mortgages purchased by the Enterprises, rather than the number of affordable units in the properties.

Established Federal Advisory Committee on Affordable, Equitable, and Sustainable Housing

- In August 2022, FHFA announced its intent to establish an Advisory Committee on Affordable, Equitable, and Sustainable Housing. The Committee will better position FHFA to fulfill its strategic goal to foster housing finance markets that promote equitable access to affordable and sustainable housing by providing the FHFA Director with advice and input on those markets, which include barriers to access, and any regulatory or policy changes that may be necessary or beneficial in those areas.

Updated Minimum Financial Eligibility Requirements for Enterprise Seller/Servicers

- In August 2022, FHFA updated minimum financial eligibility requirements for Enterprise seller/servicers. The updated eligibility requirements represent an ongoing commitment to the safety and soundness of Fannie Mae and Freddie Mac by strengthening the capacity of seller/servicers to meet the financial responsibilities associated with doing business with the Enterprises. The updated requirements contain changes related to incorporating enhanced definitions of capital and liquidity, reducing the procyclicality of the previous liquidity requirements, and incorporating lessons learned from the COVID-19 pandemic. The requirements also include higher supplemental requirements applicable only to large non-depositories, defined as non-depositories having $50 billion or more of total single-family servicing unpaid principal balance.

  Since 2020, FHFA and the Government National Mortgage Association (Ginnie Mae) have coordinated their analyses, engaged in stakeholder outreach, and held an April 2022 joint listening session to consider feedback on the impact the revised requirements will have on the mortgage industry. To reduce regulatory burden and provide greater consistency and predictability for seller/servicers and issuers, FHFA and Ginnie Mae worked closely to align their respective standards and implementation timelines to the greatest extent possible. The majority of the requirements are effective on September 30, 2023.

STRATEGIC OBJECTIVE 2.1: INSTITUTE REFORMS AT THE REGULATED ENTITIES THAT SERVE TO FOSTER CLEAR NATIONAL HOUSING FINANCE MARKETS

FHFA's responsibilities for housing finance market liquidity and safety and soundness are inherently intertwined, and the Agency evaluates policies and takes appropriate action to promote both goals. As both regulator and conservator, FHFA requires the Enterprises, where feasible, to: (1) take actions to improve liquidity in the single-family housing finance market; (2) continue to improve servicing standards and foreclosure prevention actions; and (3) maintain a critical ongoing role in the multifamily sector, particularly for affordable multifamily properties and underserved market segments. As regulator of the FHLBank System under the Safety and Soundness Act and the Bank Act, FHFA works to ensure that the FHLBanks continue to fulfill their statutory mission of providing a reliable source of liquidity to their member institutions in support of housing finance and community lending.

In FY 2022, FHFA monitored two performance measures for Strategic Objective 2.1 and met the targets for both of these measures. The table below reports progress on these measures.

Table 11: Strategic Objective 2.1 – Summary of Performance Measures and Results

Strategic Objective 2.1: Institute reforms at the regulated entities that serve to foster CLEAR national housing finance markets							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
2.1.1: Document review of regulated entity public filings	N/A	N/A	N/A	N/A	MET	Quarterly documentation of reviews within 45 days after the required filing date	MET
2.1.2: Publish annual guarantee fee report	N/A	N/A	N/A	N/A	MET	December 30, 2021	MET

PERFORMANCE MEASURE 2.1.1: Document review of regulated entity public filings

The measure ensures oversight of the public financial statements released by the regulated entities. For the Enterprises, FHFA review must be completed prior to filing with the U.S. Securities and Exchange Commission. Through the supervisory process and through the financial statement acknowledgement process, FHFA, as regulator and as conservator, conducts oversight of the information released by its regulated entities, which informs decisions by a wide range of government and non-government stakeholders and market participants. For the FHLBanks, FHFA as regulator reviews the individual bank filings, and FHFA conducts oversight of combined financial reports for the System. In FY 2022, FHFA provided quarterly documentation of reviews within 45 days after the required filing date.

PERFORMANCE MEASURE 2.1.2: Publish annual Guarantee Fee Report

HERA requires FHFA to conduct an ongoing study of the guarantee fees charged by the Enterprises and to submit a report to Congress each year. Guarantee fees are intended to cover the credit risk and other costs that Fannie Mae and Freddie Mac incur when they acquire single-family loans from lenders. These include projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. The 2021 report compares year-over-year 2020 to 2019 and 2018. The report "Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2020" was published December 21, 2021.[26]

[26] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/GFee-Report-2020.pdf.

STRATEGIC OBJECTIVE 2.2: ENSURE THAT THE REGULATED ENTITIES FULFILL THEIR STATUTORY MISSIONS TO SUPPORT AFFORDABLE HOUSING, COMMUNITY DEVELOPMENT, AND DIVERSITY AND INCLUSION REQUIREMENTS

FHFA works with the Enterprises to develop and monitor programs that expand access to housing finance to all qualified financial institutions and qualified borrowers. FHFA oversees the FHLBanks' affordable housing and community investment activities. In FY 2022, FHFA monitored seven performance measures for Strategic Objective 2.2 and met six of the targets for these measures. The table below reports progress on these measures.

Table 12: Strategic Objective 2.2 – Summary of Performance Measures and Results

Strategic Objective 2.2: Ensure that the regulated entities fulfill their statutory missions to support affordable housing, community development, and diversity and inclusion requirements							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
2.2.1: Publish proposed Enterprise housing goals rule for 2022-24	N/A	N/A	N/A	N/A	NOT MET	December 2021	MET
2.2.2: Issue annual ratings for each Enterprise's Duty to Serve performance in 2020	N/A	N/A	N/A	N/A	MET	October 2021	MET
2.2.3: Determine that the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard[27]	N/A	N/A	N/A	N/A	N/A	1. Each Enterprise's mission driven business meets or exceeds 50 percent of total multifamily business for CY 2021, and 2. At least 20 percent of each Enterprise's total business is affordable at or below 60 percent of area median income	MET
2.2.4: Issue an Operating Procedures Bulletin on fair lending examinations for the Enterprises	N/A	N/A	N/A	N/A	N/A	July 2022	MET
2.2.5: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon remediation plans and timeframes	N/A	N/A	N/A	N/A	MET	90 percent	MET
2.2.6a: Approve Diversity and Inclusion reports of examination by March 31, 2022, for the Enterprises and Common Securitization Solutions	N/A	N/A	N/A	N/A	N/A	100 percent of the time	NOT MET
2.2.6b: Approve Diversity and Inclusion reports of examination for at least nine of the FHLBank System regulated entities	N/A	N/A	N/A	N/A	N/A	100 percent of the time	MET

[27] The 2022 Scorecard expands the definition of naturally occurring affordable housing to include affordability adjustments in certain markets FHFA designates as cost-burdened to renters and classifies as mission-driven, financing that facilitates energy and water conservation measures for low-income tenants. Other mission-driven business includes loans on manufactured housing; community blanket loans; loans that finance properties in rural markets; loans that finance small multifamily (5-50 unit) properties; loans that finance seniors housing assisted living properties; and loans on properties encumbered by a regulatory agreement or recorded use restriction that restricts the unit rents and the incomes of the tenants occupying the units.

PERFORMANCE MEASURE 2.2.1: Publish proposed Enterprise housing goals rule for 2022-24

The Enterprises have important roles in supporting access to mortgage credit for low- and moderate-income families. Sections 1331 through 1333 of the Safety and Soundness Act require the Director to establish annual housing goals for mortgage purchases by Fannie Mae and Freddie Mac, covering at most a three-year period. The Enterprise housing goals are annual based on CY and include separate affordable housing categories for single-family and multifamily mortgages. In December 2021, the Agency published a final rule establishing benchmark levels for each of the single-family housing goals and subgoals for 2022-2024 and benchmark levels for multifamily housing goals for 2022. In July 2022, FHFA proposed new benchmarks for the multifamily housing goals covering 2023 and 2024. The proposed rule would measure Enterprise performance as the percent of affordable units in multifamily properties financed by mortgages purchased by the Enterprises, rather than the number of affordable units in the properties.

PERFORMANCE MEASURE 2.2.2: Issue annual ratings for each Enterprise's Duty to Serve performance in 2020

The Enterprises have important roles in supporting access to mortgage credit for low- and moderate-income families, as well as those in underserved areas. The Safety and Soundness Act establishes a duty for Fannie Mae and Freddie Mac to serve very low-, low-, and moderate-income families in three underserved markets—manufactured housing, affordable housing preservation, and rural housing.

Under FHFA's regulation, each Enterprise submits a Duty to Serve (DTS) Underserved Markets Plan for review and non-objection. The plan covers a three-year period and describes the activities and objectives the Enterprise will carry out in each underserved market to meet its DTS obligations.

While the plans cover three years, FHFA is required by statute to evaluate and rate the Enterprises' DTS performance each CY. In October 2021, FHFA issued its annual evaluations for each Enterprise's 2020 DTS performance as part of FHFA's Annual Housing Report.

PERFORMANCE MEASURE 2.2.3: Determine that the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard[28]

The 2022 Scorecard expands the definition of naturally occurring affordable housing to include affordability adjustments in certain markets FHFA designates as cost-burdened to renters and classifies as mission-driven, financing that facilitates energy and water conservation measures for low-income tenants. Other mission-driven business includes loans on manufactured housing, community blanket loans, loans that finance properties in rural markets, loans that finance small multifamily (5-50 unit) properties, loans that finance seniors housing assisted living properties, and loans on properties encumbered by a regulatory agreement or recorded use restriction that restricts the unit rents and the incomes of the tenants occupying the units.

This measure determines if the Enterprises' multifamily loan purchases for the calendar year met FHFA's mission-driven requirements. The measure helps ensure that the Enterprises purchase a certain amount of mission-driven multifamily loans and meet FHFA's minimum mission-driven requirements. In CY 2021, each Enterprise's mission-driven business met or exceeded 50 percent of total multifamily business and at least 20 percent of each Enterprise's total business was affordable at or below 60 percent of area median income.

[28] The 2022 Scorecard expands the definition of naturally occurring affordable housing to include affordability adjustments in certain markets FHFA designates as cost-burdened to renters and classifies as mission-driven, financing that facilitates energy and water conservation measures for low-income tenants. Other mission-driven business includes loans on manufactured housing; community blanket loans; loans that finance properties in rural markets; loans that finance small multifamily (5-50 unit) properties; loans that finance seniors housing assisted living properties; and loans on properties encumbered by a regulatory agreement or recorded use restriction that restricts the unit rents and the incomes of the tenants occupying the units.

PERFORMANCE MEASURE 2.2.4: Issue an Operating Procedures Bulletin on fair lending examinations for the Enterprises

This performance measure provides a target for the Office of Fair Lending Oversight's publication of examination operating procedures for the Enterprises. Release of operating procedures is designed to provide transparency regarding FHFA's supervisory oversight and set expectations with the Enterprises regarding examination procedures. Fair lending examinations ensure that all Americans, especially those in underserved communities, have access to a fair and sustainable housing finance system. By clearly communicating how fair lending examinations will proceed, FHFA increases examination process efficiency, improves risk-based supervision, and supports its goal of ensuring equitable housing opportunities. Because the operating bulletin is non-public information, FHFA will not publish it on the Agency's website. However, FHFA sent memoranda formalizing the operating bulletin to the Enterprises in July 2022. The target for this measure was met.

PERFORMANCE MEASURE 2.2.5: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon remediation plans and timeframes

The regulated entities are evaluated by FHFA to ensure compliance with statutory and regulatory requirements for advancing diversity and ensuring inclusion in all of their business activities. FHFA executes supervisory strategies that establish areas of focus and set the expectations for the regulated entities to ensure their compliance. The Diversity and Inclusion (D&I) examination module establishes a framework within which the regulated entities are examined by FHFA for such compliance and hold the regulated entities accountable in this area. The performance measure relies on the D&I supervisory strategies and examination plans that FHFA has developed and uses to evaluate compliance by the regulated entities with Section 1116 of HERA and FHFA regulations at 12 CFR 1207. The target is a 90 percent success rate for MRAs reviewed during the year. In FY 2022, 100 percent (20/20) of the open MRAs issued at previous examinations to the regulated entities were remediated or on track to be remediated.

PERFORMANCE MEASURE 2.2.6A: Approve Diversity and Inclusion reports of examination by March 31, 2022, for the Enterprises and Common Securitization Solutions

This measure reports progress towards meeting FHFA's requirement to issue D&I ROEs to FHFA's regulated entities. FHFA missed its target for meeting this measure. As of publication of the PAR on November 15, 2022, the ratings for Fannie Mae, Freddie Mac, and CSS are non-public and under review.

PERFORMANCE MEASURE 2.2.6B: Approve Diversity and Inclusion reports of examination for at least nine of the FHLBank System regulated entities

This measure reports progress towards meeting FHFA's requirement to issue D&I ROEs to FHFA's regulated entities. These reports demonstrate the Agency's commitment to its mission to promote financial inclusion and economic opportunity by ensuring regulated entity compliance with statutory and regulatory compliance. In FY 2022, FHFA approved D&I ROEs for nine of the FHLBank System regulated entities.

STRATEGIC OBJECTIVE 2.3: POSITION FHFA AS A LEADER IN PROVIDING THE PUBLIC WITH INFORMATION AND ANALYSIS ON THE STATE OF THE HOUSING FINANCE MARKETS AND RELATED MATTERS

In FY 2022, FHFA continued to conduct research, collect and analyze data, and publish important information in FY 2022 on housing and market conditions. This informs policy decisions and the public and promotes market efficiency and stability. Selected examples include:

- Continuing regular publication on FHFA's website of monthly and quarterly FHFA House Price Index (FHFA HPI®) information, which provides indications of housing price movements for geographic areas;
- Producing and certifying the quarterly update of the National Mortgage Database (NMDB®) and making the data available to FHFA and the Consumer Financial Protection Bureau (CFPB) in a production environment;
- Conducting the nationally representative National Survey of Mortgage Originations (NSMO) every quarter, and publishing public-use NSMO data on FHFA's website annually; and
- Continuing to publish the monthly and quarterly FHFA Foreclosure Prevention and Refinance Report, which monitors the Enterprises' foreclosure prevention and refinance activities.

In FY 2022, FHFA monitored three measures for Strategic Objective 2.3 and met all three of the targets for these measures. The table below reports progress on these measures.

Table 13: Strategic Objective 2.3 – Summary of Performance Measures and Results

Strategic Objective 2.3: Position FHFA as a leader in providing the public with information and analysis on the state of the housing finance markets and related matters

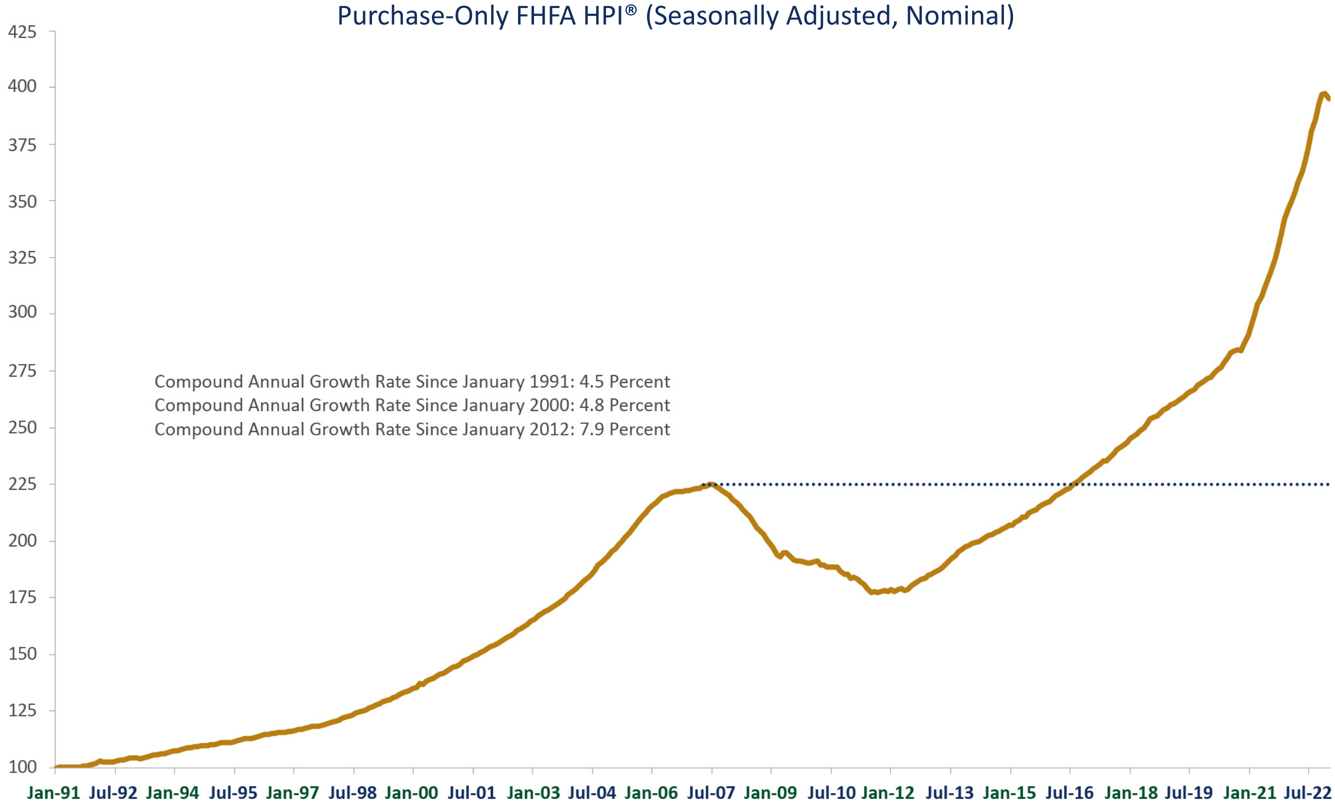
Performance Measure	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 Target	FY 2022 Result
2.3.1: Publish FHFA House Price Indexes	MET	MET	MET	MET	MET	12 monthly and 4 quarterly	MET
2.3.2: Publish annual Public Use Database	N/A	N/A	N/A	N/A	NOT MET	September 2022	MET
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database	N/A	N/A	N/A	N/A	MET	One per quarter	MET

PERFORMANCE MEASURE 2.3.1:
Publish FHFA House Price Indexes

The statutorily required monthly FHFA HPI® is a broad measure of the movement of single-family house prices, calculated using home sales price information for mortgages sold to, or guaranteed by, the Enterprises. The FHFA HPI serves as a timely, accurate indicator of house price trends at various geographic levels. Because of the breadth of the sample used for the survey, it provides more information than is available in other house price indices. The FHFA HPI provides housing economists with an analytical tool that is useful for estimating changes in the rates of mortgage defaults, prepayments, and housing affordability in specific geographic areas. FHFA HPI data are available at **https://www.fhfa.gov/HPI**. In FY 2022, FHFA successfully published 12 monthly and four quarterly FHFA HPI releases. Figure 11 shows the FHFA HPI from 1991 to July 2022 as released in September 2022.

Figure 11: Monthly House Price Index for U.S. from January 1991 – Present

Purchase-Only FHFA HPI® (Seasonally Adjusted, Nominal)



Source: FHFA

PERFORMANCE MEASURE 2.3.2: Publish annual Public Use Database

The Enterprise Public Use Database (PUDB) is released annually by FHFA as required by 12 U.S.C. 4543. It provides loan and unit information for single-family and multifamily mortgages acquired by Fannie Mae and Freddie Mac in the prior CY. The data provide the general public with a deeper understanding of housing and mortgage markets. The PUDB single-family data set includes detailed information such as the income, race, and gender of the borrower as well as the census tract location of the property, loan-to-value (LTV) ratio, age of mortgage note, and affordability of the mortgage. The PUDB multifamily property-level data set includes information on the size of the property, unpaid principal balance, and type of seller/servicer from which the Enterprise acquired the mortgage. The multifamily unit-class file also includes information on the number and affordability of the units in the property. Both the single-family and multifamily data include indicators of whether the purchases are from "underserved" census tracts, as defined in terms of median income and minority percentage of population. The PUDB data sets were released in September 2022.[29]

PERFORMANCE MEASURE 2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database

The NMDB is a nationally representative 5 percent sample of residential mortgages in the United States. Publication of aggregate data from NMDB is a step toward implementing the statutory requirements of section 1324(c) of the Safety and Soundness Act, as amended by HERA. The statute requires FHFA to conduct a monthly mortgage market survey to collect data on the characteristics of individual mortgages, both Enterprise and non-Enterprise, and to make the data available to the public while ensuring that the data are not released in an identifiable form in order to protect the privacy of borrowers. The data help FHFA gain a better understanding of housing and mortgage markets. The purpose of NMDB is to inform and educate FHFA, CFPB, and other federal agencies about lending products and mortgage market health. The database is comprehensive, and there are many possibilities for how it may be used, including:

- Monitoring new and emerging products in the mortgage market;
- Monitoring the relative health of mortgage markets and consumers;
- Evaluating loss mitigation, borrower counseling, and loan modification programs;
- Monitoring affordable lending; and
- Performing stress tests and prepayment/ default modeling

The data were published quarterly on **https://www.fhfa.gov/nmdbdata**.

[29] **https://www.fhfa.gov/DataTools/Downloads/Pages/Public-Use-Databases.aspx**.

Strategic Goal 3: Position the Agency as a Model of Operational Excellence by Strengthening the Workforce and Infrastructure

FHFA is dedicated to developing and maintaining a results-oriented performance culture through effective and efficient management of its resources. FHFA's success in meeting its mission depends on an environment supportive of staff growth and development, as well as business practices that orient towards innovation, cooperation, and results. Achievement of FHFA's mission requires communication, collaboration, and coordination by staff across all offices and divisions within the Agency.

STRATEGIC GOAL 3 – SELECTED ACCOMPLISHMENTS

FHFA achieved several accomplishments in FY 2022 that contributed to progress in this area. Selected accomplishments for FY 2022 include:

Established FHFA Data Governance Committee

- FHFA is committed to implementing the Evidence-Based Policy Making Act of 2018 and the corresponding guidance provided by OMB. In FY 2022, FHFA formally established an agency-level data governance. The FHFA Data Governance Committee's purpose is to ensure the Agency makes strategic decisions (e.g., policies, strategic plans, investments) and tactical decisions (e.g., procedures, standards, controls) concerning data governance and lifecycle data management in a collaborative and informed manner in furtherance of FHFA's mission.
- The committee will serve as a forum for discussion and review, making recommendations to senior Agency officials with respect to data governance and lifecycle data management matters. FHFA also completed an update to the agency-wide data catalog in FY 2022 and began developing a draft Comprehensive Data Inventory Standard that would implement the statutory requirement to maintain the inventory.

Established Internal Controls Policy and Enterprise Risk Management Policy

- In FY 2022, FHFA implemented the Internal Controls Policy which defines the responsibilities for all levels of FHFA to perform Agency processes, promote the proper stewardship of Agency resources, and report on Agency controls in accordance with statutory requirements. The Internal Controls Policy builds the framework for root cause analysis and corrective action planning to remediate known deficiencies in an effective and timely manner.
- In FY 2022, FHFA established an Enterprise Risk Management (ERM) Framework and ERM Policy to further mature its practices and provide awareness of the Agency's enterprise-wide risk. This Policy establishes ERM program requirements for implementing a continual systematic method and governance structure for managing Agency-level risks. The Agency also chartered the Audit, Risk, and Control Committee (ARCC). The ARCC provides the governance and oversight for the Agency's Audit Coordination, ERM, and Internal Controls program and replaced the Executive Committee on Internal Controls that was more narrowly focused.

COVID-19 Response and Return to Office Phase 3

- After the Agency's success in transitioning to a remote environment at the onset of the pandemic, the Agency made changes in its policies and procedures that enabled a hybrid work model to be implemented in June 2022. The Agency's technology infrastructure has continued to support employees working remotely while ensuring secure access to Agency information resources and collaboration tools. The Agency has further enabled its workforce by making information technology (IT) upgrades throughout the building to facilitate an effective hybrid workforce.
- The Agency's other operations functions have adapted service models and implemented policies to support a hybrid workforce. This included expanding the number of days a week that employees may telework, as well as expanding options for flexible work schedules. Additional policies have been updated to maximize space utilization and to allow for repurposing space for future Agency needs. The Agency also instituted a Wellness Program that provides increased opportunities and programs geared at improving the overall health of employees.

STRATEGIC OBJECTIVE 3.1: CULTIVATE A HIGH-PERFORMING, DIVERSE, ACCOUNTABLE, AND ENGAGED WORKFORCE

In FY 2022, FHFA monitored four measures for Strategic Objective 3.1 and met three of the targets for these measures. The table below reports progress on these measures.

Table 14: Strategic Objective 3.1 – Summary of Performance Measures and Results

Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
3.1.1: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"	N/A	N/A	N/A	MET	MET	Positive responses equal to or higher than both the small agency and government-wide averages	MET
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index is at or above the percent that the Office of Personnel Management considers an agency "Strength"	N/A	N/A	N/A	MET	MET	65 percent positive	MET
3.1.3: Improve the number of days to hire	N/A	N/A	N/A	N/A	NOT MET	95 workdays	MET
3.1.4: Develop FHFA Human Capital Plan[30]	N/A	N/A	N/A	N/A	N/A	July 2022	NOT MET

PERFORMANCE MEASURE 3.1.1: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"

The Federal Employee Viewpoint Survey (FEVS) is conducted on an annual basis to measure employees' perceptions of many work issues. The results provide agency leaders insight into areas where improvements have been made, as well as areas where improvements are needed. Tracking FHFA's response to the question on its workforce having the job-relevant knowledge and skills necessary to accomplish organizational goals provides a high-level valuation of core human resources programs, such as recruitment, performance management, and training and development. This measure determines how well FHFA compares with the rest of the federal government in having a workforce with the job-relevant knowledge and skills necessary to accomplish organizational goals. It also informs FHFA if its employees perceive that the Agency is hiring, retaining, and developing the right talent to accomplish its mission. The FY 2021 FEVS response for this measure is 89 percent positive, which is 3 percent higher than the small agency average (86 percent) and 9 percent higher than the government-wide average (80 percent).

[30] The Agency has renamed the FHFA Human Capital Plan, which is now the FHFA People Plan.

PERFORMANCE MEASURE 3.1.2: FEVS Employee Engagement Index is at or above the percent that the Office of Personnel Management considers an agency "Strength"

FHFA measures agency-wide employee engagement as compared to what is considered an overall strength as defined by the Office of Personnel Management (OPM). The Agency has committed to maintaining an engaged workforce with the assumption that more engaged employees are more productive and therefore improve overall Agency operations. The FY 2021 FEVS response for this measure is 75 percent positive and considered a "strength" by OPM.

PERFORMANCE MEASURE 3.1.3: Improve the number of days to hire

The purpose of this measure is to monitor the time required to hire job applicants and fill vacant positions. The Agency determined that 95 workdays should be the target for completing the hiring process. The average hiring time for FY 2022 was 91 workdays. Measurement of the hiring cycle begins when a vacancy announcement or hiring action has been authorized by the hiring manager and concludes when an applicant accepts a job offer.

The number of days to hire is tracked on a monthly basis and it is reported quarterly. In addition, FHFA implemented a tool to track the time-to-hire from the date an action is initiated until an offer is accepted.

PERFORMANCE MEASURE 3.1.4: Develop FHFA Human Capital Plan

The FHFA People Plan, renamed from the FHFA Human Capital Plan, will provide a combination of strategies, objectives, actions, and metrics to enable organized, efficient, and steady progress for the Agency's workforce. FHFA missed its target for completing the FHFA People Plan. Although a draft of the Plan was completed in July 2022, it is still under review to be finalized as of November 15, 2022, which is the publication date of the PAR.

STRATEGIC OBJECTIVE 3.2: ENSURE SOUND GOVERNANCE AND GOOD STEWARDSHIP OF AGENCY RESOURCES

FHFA employs financial, contracting, and performance information to ensure that resources are managed responsibly. In FY 2022, FHFA monitored four measures for Strategic Objective 3.2 and met the targets for three of these measures. The table below reports progress on these measures.

Table 15: Strategic Objective 3.2 – Summary of Performance Measures and Results

Strategic Objective 3.2: Ensure sound governance and good stewardship of Agency resources							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses	MET	MET	MET	MET	MET	100 percent of the time	MET
3.2.2: Award FHFA contracts competitively	N/A	N/A	N/A	N/A	MET	75 percent	MET
3.2.3: Complete corrective actions to address audit recommendations in a timely manner	N/A	N/A	N/A	N/A	NOT MET	95 percent of the corrective actions to address Office of Inspector General recommendations are completed within one year of the resolution date	NOT MET
3.2.4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	MET	MET	MET	NOT MET	MET	Total dollar amount of contracts greater than the five-year average	MET

PERFORMANCE MEASURE 3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses

Financial statements provide information that is essential to evaluating FHFA's financial condition. The financial statements show where FHFA's money came from, where it went, and where it is now. The financial statements audit tests: (1) accuracy, consistency, and FHFA adherence to applicable government accounting standards; and (2) the internal controls to determine whether the financial statements are reliable. An unmodified opinion with no material weaknesses or unacceptable risks is the best result of any audit. Achieving this level of excellence indicates the use of proper accounting controls and the proper application of accounting standards. It means that the financial statements are reliable, accurate, and complete. FHFA has received a clean audit every year since the creation of the Agency in 2008.

PERFORMANCE MEASURE 3.2.2: Award FHFA contracts competitively

Per the Competition in Contracting Act, competition is critical for procurement and a key component of sound fiscal responsibility. Competitively awarding contracts (i.e., not directly awarding to a particular vendor, but allowing multiple vendors to submit proposals in response to a solicitation) is a proven tool for:

- Realizing cost savings because vendors must put forth fair and reasonable pricing to be considered for an award;
- Spurring innovation, since the commercial marketplace can set forth various, unique processes and approaches to meet the federal government's needs; and
- Increasing business opportunities for diverse vendors, to include small, women-owned, and minority-owned businesses.

As good stewards of agency resources, FHFA is committed to securing the goods and services needed to execute its mission at fair and reasonable prices and considering solutions that are the best value to the Agency. Competing contracts supports this commitment. In FY 2022, FHFA competed 87.95 percent of its contract actions.

PERFORMANCE MEASURE 3.2.3: Complete corrective actions to address audit recommendations in a timely manner

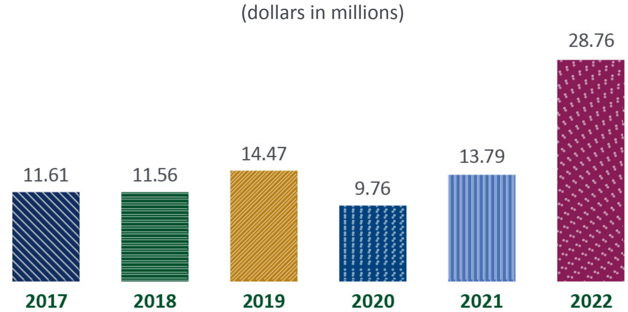
FHFA's target for timely audit follow-up is to complete 95 percent of the corrective actions to address OIG recommendations within one year of the resolution date. In FY 2022, FHFA completed 41 out of 49 recommendations within 365 days. This resulted in a completion rate of 84 percent of recommendations completed within 365 days. The measure is calculated by counting the time it has taken to resolve those corrective actions that are closed out during the course of a fiscal year. Some of the corrective actions were tied to exam cycles and could not be resolved within one year due to the timing of exams. FHFA is working to revise its service models and automate manual audit tracking and follow up processes. This is expected to improve visibility and accountability and will enhance FHFA's ability to meet this target in the future.

PERFORMANCE MEASURE 3.2.4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards

This measure demonstrates the effectiveness of the initiatives and actions in which FHFA engaged in FY 2022 to increase greater opportunities for diverse firms, as required by Section 342 of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. The measure reports the total obligated amount of FHFA contracts awarded to minority- and women-owned businesses (MWOBs). In FY 2022, $28,756,196 of the Agency's contract dollars went to MWOBs, which represents 37 percent of the Agency's total spend. By comparison, 63 percent of the Agency's contract dollars went to non-MWOBs. During FY 2022, FHFA continued to engage external and internal partners and stakeholders and look for opportunities that might provide FHFA access to MWOB goods or services.

Figure 12: Obligated Amounts to MWOBs[31]

(dollars in millions)



[31] Obligated amounts may not align with previous years' PAR reporting due to updated transaction records and in the event the MWOB status of a business has been revised.

STRATEGIC OBJECTIVE 3.3: DELIVER INFORMATION TECHNOLOGY RESOURCES AND SYSTEMS THAT SUPPORT THE AGENCY'S MISSION AND SAFEGUARD THE AGENCY'S RESOURCES

The Agency provides responsive, secure, and efficient IT capabilities that are essential to FHFA's ability to accomplish its mission. In FY 2022, FHFA monitored three measures for Strategic Objective 3.3 and met the targets for all three measures. The table below reports progress on these measures.

Table 16: Strategic Objective 3.3 – Summary of Performance Measures and Results

Strategic Objective 3.3: Deliver information technology resources and systems that support the Agency's mission and safeguard the Agency's resources							
Performance Measure	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022 Target**	**FY 2022 Result**
3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	MET	MET	MET	MET	MET	100 percent of the time	MET
3.3.2: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	N/A	N/A	MET	MET	MET	99.5 percent of the time	MET
3.3.3: Determine average user response on FHFA help desk ticket surveys	N/A	N/A	N/A	N/A	MET	4.5 rating on a scale of 0 to 5	MET

PERFORMANCE MEASURE 3.3.1: Ensure FHFA's FISMA audit identifies no significant deficiencies

This measure reports on the effectiveness of security and privacy controls that FHFA uses to secure the Agency's information and systems. The Federal Information Security Modernization Act of 2014 audit identified no significant deficiencies or material weaknesses. The audit identified two findings for improvement, neither of which rises to significant deficiency or material weakness. The final report can be found at **https://www.fhfaoig.gov/sites/default/files/AUD-2022-009.pdf**.

PERFORMANCE MEASURE 3.3.2: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff

Service availability is a metric that represents the percentage of time that IT service is successfully operational. Service availability is a continuous measure. Each quarter FHFA achieved more than 99.5 percent availability.

PERFORMANCE MEASURE 3.3.3: Determine average user response on FHFA help desk ticket surveys

The help desk receives more than 15,000 requests for support and services annually. FHFA's help desk supports all critical mission functions, including responding to and resolving all break-fix issues or other problems that surface, such as email, connectivity, and access control. The help desk is also responsible for the deployment of new/replacement computers and peripherals.

This measure provides all employees and contractors an opportunity to rate the service they received on a rating that ranges from 0 to 5 with 5 reflecting outstanding service. Each quarter, FHFA averaged greater than the 4.50 target.

Added, Changed, and Discontinued Measures

Table 17: Performance Measures Added, Changed, and Discontinued in FY 2022[32]

Strategic Goal 1: Ensure Safe and Sound Regulated Entities Through World-Class Supervision		
Language in 2021	**Language in 2022**	**Explanation**
1.1.5a: Determine that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes **Target** – 90 percent of the time	**1.2.1a:** Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes **Target** – 90 percent of the time	For FY 2022, FHFA reorganized this measure under Strategic Objective 1.2.
1.1.5b: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes **Target** – 90 percent of the time	**1.2.1b:** Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes **Target** – 90 percent of the time	For FY 2022, FHFA reorganized this measure under Strategic Objective 1.2.
1.2.1: Conduct horizontal reviews to provide supervisory perspective on the application and the implementation of processes, activities, and initiatives at the Enterprises in the areas of credit, market, and operational risk, modeling/data, and governance **Target** – Four horizontal reviews during FY 2021	**Discontinued**	FHFA's implementation of a repeatable supervisory process for the Enterprises through the creation of a supervisory taxonomy facilitates the examination of a particular risk area for both Enterprises in a given supervisory cycle. As horizontal reviews are built into this supervisory process, FHFA determined that measuring the number of horizontal reviews completed was no longer a meaningful measure.
1.2.2: Expand regular qualitative and quantitative reporting by the Enterprises of counterparty information in the CRS **Target** – June 31, 2021	**Discontinued**	Target Met
1.2.3: Develop an action plan to address improvement opportunities identified in FHFA's optimization study to further the development of a world-class supervision program **Target** – June 30, 2021	**Discontinued**	Target Met

[32] FHFA measures for 2021 can be found in the **FHFA FY 2021 Annual Performance Plan**. FHFA measures for 2022 can be found in the **FHFA FY 2022 Annual Performance Plan**.

Table 17: Performance Measures Added, Changed, and Discontinued in FY 2022 (continued)		
Strategic Goal 1: Ensure Safe and Sound Regulated Entities Through World-Class Supervision		
Language in 2021	**Language in 2022**	**Explanation**
1.2.4: Conduct horizontal review of acquired member asset pricing and its effect on credit risk sharing structures at the FHLBanks **Target** – September 30, 2021	**Discontinued**	Target Met
1.3.1: Issue a final Enterprise Regulatory Capital Framework **Target** – 1st Quarter, FY 2021	**Discontinued**	Target Met
1.3.2: Publish a proposed regulation requiring the Enterprises to submit resolution plans (living wills) **Target** – March 31, 2021	**Discontinued**	Target Met
1.3.3: Issue a proposed rule on Enterprise Capital Planning **Target** – FY 2021	**1.3.2:** Issue a proposed rule on Enterprise Capital Planning **Target** – FY 2022	Measure 1.3.3 was continued as 1.3.2 until it was met in FY 2022.
1.3.4: Oversee the Enterprises' compliance with Senior Preferred Stock Purchase Agreement's targets for mortgage assets and indebtedness **Target** – Retained portfolio balances and debt limits are below the PSPA requirements of $250 billion and $300 billion, respectively, at each Enterprise	**Discontinued**	Target Met
1.3.5: Make recommendation to the Director regarding CSS's structural options post-conservatorship **Target** – FY 2021	**Discontinued**	Target Met

Table 17: Performance Measures Added, Changed, and Discontinued in FY 2022 (continued)		
Strategic Goal 2: Foster Competitive, Liquid, Efficient, and Resilient (CLEAR) National Housing Finance Markets		
Language in 2021	**Language in 2022**	**Explanation**
2.1.1: Update the minimum financial eligibility requirements for Enterprise sellers/servicers **Target** – June 30, 2021	**Discontinued**	Although the target was not met, FHFA determined that progress on this activity was sufficiently advanced to no longer require the visibility of an Agency-wide measure.
2.1.4: Issue a final rule on Prior Approval for Enterprise Products **Target** – September 30, 2021	**Discontinued**	Although the target was not met, FHFA determined that progress on this activity was sufficiently advanced to no longer require the visibility of an Agency-wide measure.
2.2.1: Publish proposed Enterprise housing goals rule for 2022-24 **Target** – June 2021	**2.2.1:** Publish final Enterprise housing goals rule for 2022-24 **Target** – December 2021	FY 2021 Target Met
2.2.2: Issue annual ratings for each Enterprise's DTS performance in 2019 **Target** – December 2020	**2.2.2:** Issue annual ratings for each Enterprise's Duty to Serve performance in 2020 **Target** – October 2021	FY 2021 Target Met
2.2.3: Complete implementation of the Language Access Plan **Target** – December 2020	**Discontinued and replaced** **2.2.3:** Determine that the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard **Target** – 1. Each Enterprise's mission driven business meets or exceeds 50 percent of total multifamily business for CY 2021, and 2. At least 20 percent of each Enterprise's total business is affordable at or below 60 percent of area median income	FY 2021 Target Met
2.2.4: Determine that the regulated entities have satisfactorily addressed MRAs relating to their diversity and inclusion programs, in accordance with agreed-upon remediation plans and time frames **Target** – 90 percent	**2.2.5:** Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon remediation plans and timeframes **Target** – 90 percent of the time	Continued in FY 2022 as measure 2.2.5.
2.2.5: Conduct diversity and inclusion examinations of the Enterprises and the FHLBanks **Target** – 12 exams during FY 2021	**2.2.6a:** Approve Diversity and Inclusion reports of examination by March 31, 2022, for the Enterprises and Common Securitization Solutions **Target** – 100 percent of the time **2.2.6b:** Approve Diversity and Inclusion reports of examination for at least nine of the FHLBank System regulated entities **Target** – 100 percent of the time	Broken into two measures and reorganized under the same Strategic Objective.

Table 17: Performance Measures Added, Changed, and Discontinued in FY 2022 (continued)		
Strategic Goal 2: Foster Competitive, Liquid, Efficient, and Resilient (CLEAR) National Housing Finance Markets		
Language in 2021	**Language in 2022**	**Explanation**
N/A	**2.2.4:** Issue an Operating Procedures Bulletin on fair lending examinations for the Enterprises **Target** – July 2022	FHFA added this measure in FY 2022.
2.3.1: Publish 12 monthly and 4 quarterly FHFA House Price Indexes **Target** – FY 2021	**2.3.1:** Publish 12 monthly and 4 quarterly FHFA House Price Indexes **Target** – 12 monthly and 4 quarterly	Continued with minor revisions to the target.
2.3.2: Publish annual Public Use Database **Target** – 3rd Quarter FY 2021	**2.3.2:** Publish annual Public Use Database **Target** – September 2022	Continued with statutory revisions to the target.
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database **Target** – FY 2021	**2.3.3:** Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database **Target** – One per quarter	Continued with minor revisions to the targets.
Strategic Goal 3: Position the Agency as a Model of Operational Excellence by Strengthening the Workforce and Infrastructure		
N/A	**3.1.4:** Develop FHFA Human Capital Plan **Target** – July 2022	FHFA added this measure in FY 2022.
3.2.2: Compete 75 percent or more of FHFA contracts **Target** – 100 percent of the time	**3.2.2:** Award FHFA contracts competitively **Target** – 75 percent	FHFA clarified the intent and target of the measure through minor revisions.

FINANCIAL SECTION

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Message from the Chief Financial Officer

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2022 financial statements from the Government Accountability Office (GAO). FHFA has received an unmodified audit opinion every year since its inception in July 2008.

At the heart of our sustained record of unmodified opinions on the Agency's financial statements beats a strong, robust control environment that ensures our internal controls over financial reporting are operating effectively in their design and operation.

Fiscal Year 2022 was another year of significant change and achievement for FHFA. The Agency released a new Strategic plan in April, our Acting Director Sandra L. Thompson was sworn in as our permanent Director in June, and the Agency transitioned from maximum telework to a hybrid environment at our headquarters in Constitution Center also in June. During the year, the Agency continued to grow, reaching a new high of 717 employees at year end, and as described in this PAR, achieved all but three of its 33 performance measures.

I am very proud of the professionalism of our employees charged with the planning, executing, and accounting for the Agency's resources. It is through their efforts and commitment that we continue to achieve unmodified audit opinions. Clean audits reflect strong stewardship our resources which strengthens the public's confidence in the ability of FHFA to achieve its important mission.

Sincerely,

Mark Kinsey
Chief Financial Officer
November 8, 2022

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 2022 and 2021 financial statements of the Federal Housing Finance Agency (FHFA), we found

- FHFA's financial statements as of and for the fiscal years ended September 30, 2022, and 2021, 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, 2022; and
- no reportable noncompliance for fiscal year 2022 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 an emphasis-of-matter paragraph related to the conservatorships of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), required supplementary information (RSI)[1] and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

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

<u>Opinion on the Financial Statements</u>

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, 2022, and 2021; 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. In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2022, and 2021, 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.

<u>Opinion on Internal Control over Financial Reporting</u>

We also have audited FHFA's internal control over financial reporting as of September 30, 2022, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal

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

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

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

INDEPENDENT AUDITOR'S REPORT

Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022, based on criteria established under FMFIA.

During our 2022 audit, we identified deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[4] Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to FHFA management and, where appropriate, will report on them separately.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of FHFA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter

FHFA Reporting Entity

As discussed in note 1A of the financial statements, FHFA's fiscal years 2022 and 2021 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 has provided Fannie Mae and Freddie Mac about $191 billion in direct financial support. Following criteria in Statement of Federal Financial Accounting Standards No. 47 (SFFAS 47), *Reporting Entity*, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of Fannie Mae and Freddie Mac would not be consolidated into federal reporting entity financial statements. However, the values of the investment in the entities and related activities are presented in Treasury's financial statements.

In making this determination, OMB and Treasury concluded that the entities are owned or controlled by the federal government as a result of regulatory actions, such as organizations in

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

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

INDEPENDENT AUDITOR'S REPORT

receivership or conservatorship, or other federal government intervention actions. Under such regulatory or other intervention actions, the relationship with the federal government is not expected to be permanent. These entities are classified as disclosure entities when considering their characteristics taken as a whole.[6]

FHFA management concurred with this conclusion, and FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2022 and 2021 financial statements. However, as Fannie Mae and Freddie Mac are considered to be disclosure entities, FHFA disclosed certain financial and other information about the entities in the notes to its financial statements. Our opinion on FHFA's financial statements is not modified with respect to this matter.

<u>Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting</u>

Management is responsible for (1) the preparation and fair presentation of the 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 FHFA's performance and accountability report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2022, included in the FHFA Statement of Assurance section of the agency's performance and accountability report.

<u>Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting</u>

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

INDEPENDENT AUDITOR'S REPORT

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FHFA's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

INDEPENDENT AUDITOR'S REPORT

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.

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. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it 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.

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. Management is responsible for the other information included in FHFA's performance and accountability report. The other information comprises information included in the performance and accountability report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In connection with our audits of FHFA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

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 2022 that would be

INDEPENDENT AUDITOR'S REPORT

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.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

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 to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FHFA. We caution that noncompliance may occur and not be detected by these tests.

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.

INDEPENDENT AUDITOR'S REPORT

Agency Comments

In commenting on a draft of this report, FHFA stated that it was pleased to accept GAO's unmodified audit opinions. In addition, it will continue to work to enhance its internal control and ensure the reliability of its financial reporting. The complete text of FHFA's response is reprinted in appendix I.

Anne Sit-Williams

Anne Sit-Williams
Director
Financial Management and Assurance

November 8, 2022

APPENDIX I: FHFA'S 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, 2022

Ms. Anne Sit-Williams
Director, Financial Management and Assurance
U. S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Sit-Williams:

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 2022 and 2021 Financial Statements (GAO-23-105910). This report presents GAO's opinion on the financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2022 and 2021. The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2022, 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. This means the auditor, GAO, expressed an opinion that FHFA's financial statements are fairly presented in all material aspects in accordance with U.S GAAP. FHFA also received an opinion that it maintained, in all material respects, effective internal control over financial reporting. GAO found no instances of reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements it tested.

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

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

Sincerely,

SThompson

Sandra L. Thompson
Director

Federal Housing Finance Agency
Consolidated Balance Sheets
As of September 30, 2022 and 2021
(In Thousands)

	2022	2021
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 15,938	$ 15,624
Investments - Note 3	113,898	130,025
Advances and Prepayments	607	655
Total Intragovernmental	130,443	146,304
With the Public		
Accounts Receivable, Net - Note 4	3	5
General Property, Plant, and Equipment, Net - Note 5	11,676	13,635
Advances and Prepayments	5,594	2,161
Total With the Public	17,273	15,801
Total Assets	$ 147,716	$ 162,105
Liabilities - Note 6		
Intragovernmental		
Accounts Payable	$ 961	$ 883
Advances from Others and Deferred Revenue	1,607	1,610
Other Liabilities, Net - Note 7	1,329	2,524
Total Intragovernmental	3,897	5,017
With the Public		
Accounts Payable	11,631	8,052
Federal Employee Benefits Payable, Net		
Unfunded Accrued Annual Leave	20,714	20,501
FECA Actuarial Liability	139	201
Other Liabilities, Net - Note 7		
Deferred Lease Liability	15,489	17,923
Other Liabilities	4,385	8,822
Total With the Public	52,358	55,499
Total Liabilities	$ 56,255	$ 60,516
Commitments and Contingencies - Note 9		
Net Position:		
Cumulative Results of Operations - Funds from Other than Dedicated Collections	$ 91,461	$ 101,589
Total Cumulative Results of Operations	91,461	101,589
Total Net Position	91,461	101,589
Total Liabilities and Net Position	$ 147,716	$ 162,105

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, 2022 and 2021

(In Thousands)

	2022	2021
Gross Program Costs by Strategic Goal: Note 10:		
Safety and Soundness	$ 180,273	$ 169,936
Liquid, Efficient, and Resilient Markets	59,263	58,434
Strengthen the Workforce and Infrastructure	98,818	89,185
Gross Program Costs	$ 338,354	$ 317,555
Less: Total Earned Revenue not Attributable to Strategic Goals	(320,327)	(336,854)
Net (Income From)/Cost of Operations	**$ 18,027**	**$ (19,299)**

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, 2022 and 2021

(In Thousands)

	2022		2021	
Cumulative Results of Operations:				
Beginning Balance	$	101,589	$	75,109
Imputed Financing		7,899		7,187
FOIA Collections (Transfer out)		-		(5)
Net Cost of Operations		(18,027)		19,299
Net Change in Cumulative Results of Operations		(10,128)		26,481
Total Cumulative Results of Operations	**$**	**91,461**	**$**	**101,589**
Net Position	**$**	**91,461**	**$**	**101,589**

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, 2022 and 2021

(In Thousands)

	2022		2021	
Budgetary Resources:				
Unobligated Balance From Prior Year Budget Authority, Net - Note 11	$	99,284	$	65,847
Appropriations - Note 1.D		318,739		335,328
Spending Authority From Offsetting Collections		49,104		47,739
Total Budgetary Resources	**$**	**467,127**	**$**	**448,914**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Total)	$	407,349	$	363,459
Unobligated Balance, End of Year:				
Exempt from Apportionment, Unexpired Accounts		59,778		85,455
Unexpired Unobligated Balance, End of Year		59,778		85,455
Unobligated Balance, End of Year, Total		59,778		85,455
Total Budgetary Resources	**$**	**467,127**	**$**	**448,914**
Outlays, Net:				
Outlays, Net (Total)	$	334,553	$	304,307
Distributed Offsetting Receipts		(318,739)		(335,328)
Agency Outlays, Net	**$**	**15,814**	**$**	**(31,021)**

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, 2022 and 2021

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) (collectively, regulated entities), and the Office of Finance. FHFA is responsible for ensuring that each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out its housing and community development finance missions.

HERA provided for an FHFA Office of the Inspector General (FHFA OIG), which has maintained its own Agency Location Code and set of accounting books since April 2011. The Inspector General Act of 1978, as amended, sets forth the functions and authorities of the FHFA OIG. The reporting entity for purposes of financial statements includes FHFA and FHFA OIG. Under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac (the Enterprises) under conservatorships on September 6, 2008 to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as Conservator, assumed the power of stockholders, boards, and management. FHFA has assigned to the Enterprises' boards and management certain business and operational authority. FHFA personnel monitor the operations of the Enterprises.

In September 2008, after the Enterprises were placed in conservatorships under FHFA, OMB and the U.S. Department of the Treasury (Treasury) determined that the assets, liabilities and activities of the companies would not be consolidated in the financial statements of the federal government. OMB and the Treasury concluded that the Enterprises did not meet the criteria for a federal entity contained in OMB Circular A-136, Financial Reporting Requirements, and the Statement of Federal Financial Accounting Concepts 2, Entity and Display. This determination was made because the Enterprises were not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," because of the nature of FHFA's conservatorships over the Enterprises, and because the federal government's ownership and control of the entities were considered to be temporary. OMB continued to hold this view in the President's budget submissions to Congress. Consequently, the assets, liabilities, and activities of the Enterprises were not consolidated into FHFA's financial statements. However, the Treasury Department records the value of the federal government's investments in the Enterprises, and related activity in the Department's and government-wide financial statements. Under the Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, which became effective for FY 2018, the Enterprises continue to not be consolidated in FHFA's financial statements and are included instead as disclosure entities based on their characteristics as a whole. Specifically, the Enterprises are owned or controlled by the federal government as a result of (a) regulatory actions (such as organizations in receivership or conservatorship); or (b) other federal government intervention actions. Under the regulatory or other intervention actions, the federal government's ownership and control of the Enterprises is not expected to be permanent.

Both Enterprises, acting through FHFA as their Conservator, entered into separate Senior Preferred Stock Purchase Agreements (SPSPAs) with Treasury on September 7, 2008. The SPSPAs were amended and restated on September 26, 2008. The SPSPAs were further amended by the first (May 6, 2009), second (December 24, 2009), and third (August 17, 2012) amendments, and the SPSPAs and the senior preferred stock certificates of designation were amended by letter agreements between the Enterprises and Treasury, executed in 2017, 2019, and 2021. The SPSPAs commit Treasury to provide funding for each Enterprise, up to a maximum available funding commitment, to ensure that each Enterprise maintains a non-negative net worth, thereby avoiding a statutory requirement that an Enterprise be put in receivership. Under the SPSPAs, each Enterprise notifies FHFA of its net worth position as established by its financial statements (e.g., 10-K or 10-Q). Each Enterprise also submits a statement certifying compliance with SPSPA covenants, which include limits on portfolio size and indebtedness. FHFA, in its role as Conservator, reviews Enterprise financial statements, and, if an Enterprise's liabilities exceed its assets, may submit a request to Treasury to draw upon Treasury's remaining funding commitment.

The SPSPAs also require the Enterprises to pay a dividend in exchange for the Treasury Department's investment. The Third amendment changed the dividend owed to Treasury from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance (equivalent to positive net worth above a minimum capital reserve amount). The September 27, 2019 letter amendments increased the minimum capital reserve amounts for the Enterprises, which conditionally eliminated the Enterprises' quarterly dividend obligation to Treasury. Amendments to the SPSPAs and stock certificates made pursuant to January 14, 2021 letter agreements between the Enterprises and Treasury currently allow the Enterprises to continue to retain earnings until they satisfy the requirements, including buffers, of FHFA's **2020 Enterprise capital rule**. Pursuant to the January 14, 2021 letter agreements, upon achievement of the requirements the Enterprises will resume quarterly dividend payments.

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 (GAAP) 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 that make up the balances in the statements of the FHFA OIG. The amounts reported in the financial statements are consolidated totals net of intra-entity transactions, except for the Statement of Budgetary Resources, which is presented on a combined basis. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of FHFA. Unless specified otherwise, all amounts are presented in thousands.

C. BASIS OF ACCOUNTING

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are generally recognized when incurred, without regard to receipt or payment of cash. These principles differ from budgetary accounting and reporting principles, which are used for preparing the Statement of Budgetary Resources. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other assets and liabilities. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds. FHFA's financial statements conform with U.S. GAAP 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. GAAP 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

Although our assessments are reported as Appropriations in the Combined Statement of Budgetary Resources, FHFA is not subject to appropriations. Operating revenues of FHFA are obtained through assessments of the regulated entities. The head of the Agency approved the annual budget for FY 2022 and FY 2021 in August 2021 and 2020, 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 regulated entities 30 days prior to the assessment due dates of October 1st and April 1st.

E. USE OF ESTIMATES

The preparation of the accompanying financial statements in accordance with U.S. GAAP 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 Office of Personnel Management (OPM) and cost allocations among the strategic goals 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 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 the Treasury are comprised of semi-annual assessments, investment interest, collections on reimbursable agreements, employee administrative billing and collections, and Freedom of Information Act (FOIA) request fees. FHFA is not authorized to retain fees and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections, FOIA fees, and as such, records these as liabilities until transferred to the Treasury General Fund.

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

G. INVESTMENTS

FHFA has the authority to invest in Treasury securities with maturities suitable to FHFA's needs. Non-marketable, Government Account Series (GAS) 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 (see Treasury Financial Manual, Chapter 4300). FHFA invests solely in Treasury securities. During FY 2022 and FY 2021, FHFA invested in one-day certificates of indebtedness, a type of market-based GAS security issued by 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, FOIA request fees, and an allowance for uncollectible accounts. An allowance for uncollectible accounts receivable from the public is established when either 1) management determines that collection is unlikely to occur after a review of outstanding accounts and the failure of all collection efforts, or 2) an account for which no allowance has been established is submitted to Treasury for collection, which takes place when it becomes 120 days delinquent.

I. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

General Property, Plant, and Equipment 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 federal entity. Liabilities With the Public represent funds owed to any entity or person that is not a federal entity, 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 realized budgetary resources including new budget authority, unobligated balances of budgetary resources at the beginning of year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority. These consist of accounts payable, accrued payroll and benefits, and capital lease liabilities. Accounts payable represents amounts owed to employees for travel related expenses, and other entities for goods ordered and received and for services rendered. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year. The Department of Labor (DOL) is the central paying agent for all workers' 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. Unused funds after the two-year period are deobligated within three months from the end of the two year period. Funded FECA liability represents the amount FHFA is to reimburse DOL for claims paid to FHFA employees.

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

Deferred lease liabilities consist of deferred rent and the Constitution Center tenant allowance. Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight-line method. Deferred rent is applicable to the lease agreements on properties with non-cancellable lease terms. See Note 8. Leases for specific lease information.

Liabilities related to capital leases are also discussed in Note 8. Leases.

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

L. EMPLOYEE LEAVE AND BENEFITS

All full-time FHFA employees are entitled to accrue sick leave at a rate of four hours per pay period. Full-time employees are eligible to earn sick leave immediately upon being hired. Annual leave is accrued based on years of creditable federal service and military service, with the following exceptions: Former Office of Federal Housing Enterprise Oversight employees hired between April 25, 2005 and July 30, 2008 accrue annual leave based on years of creditable federal and military service as well as years of relevant private sector experience (HERA abolished the Office of Federal Housing Enterprise Oversight when FHFA was established in July (2008). Additionally, FHFA employees hired into mission critical positions at or above the EL-13 level, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal agencies may also have been authorized to receive credit for private sector time. Employees in non-supervisory and non-manager positions may carry-over up to 240 hours of annual leave each year. Supervisors and managers (below EL-15) may carryover up to 480 hours of annual leave each year. The FHFA Leadership Level's equivalent to the Senior Executive Service employees may accrue annual leave of eight (8) hours each pay period, which is consistent with the government-wide rules for Senior Executive Service level employees and FHFA executives may carry over annually up to 720 hours of annual leave. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. This represents amounts of annual leave that have been earned and are payable, and will be paid from future years funds. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to an employee upon leaving federal service and calculated based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon retirement, any unused sick leave under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) is creditable towards an employee's annuity computation.

Health Benefits and Life Insurance: FHFA, through programs established for all agencies by the federal government, offers its employees' health and life insurance coverage through the Federal Employees Health Benefits Program (FEHB) and Federal Employees Group Life Insurance Program. The cost of each is shared by FHFA and its employees. FHFA pays 90 percent of the FEHB premium. In addition, all employees have 1.45 percent of adjusted gross earnings withheld to pay for Medicare coverage. High-earning employees pay an additional Medicare tax. The Additional Medicare Tax is calculated as 0.9 percent of adjusted gross earnings over the threshold regardless of 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, 18.4 percent for FERS, 37.6 percent for FERS Law Enforcement Officer (LEO), 16.6 percent for FERS-RAE and FERS-FRAE, and 35.8 percent for FERS-RAE LEO and FERS-FRAE LEO. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. FERS employees are automatically enrolled in TSP and 5.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security. The 2022 maximum taxable wage base for Social Security is $147,000.

FHFA expenses its contributions to the retirement plans of covered employees as the expenses are incurred. As discussed in Note 1.P and reflected in the Consolidated Statements of Changes in Net Position and Note 16, FHFA reports imputed financing costs with respect to retirement plans, health benefits and life insurance pursuant to guidance received from OPM. These costs are paid by OPM and not by FHFA. Disclosure of imputed cost in the Statement of Net Cost is intended to provide information regarding the full cost of FHFA's program in conformity with U.S. GAAP.

FHFA does not report plan assets, accumulated plan benefits, and related unfunded liabilities, if any, for the retirement plans covering its employees. Reporting these amounts is the responsibility of OPM, as the administrator of these plans.

In addition to the TSP, FHFA offers a supplemental 401(K) plan. All CSRS and FERS employees are eligible to contribute to the 401(K). All eligible employees that participate will receive matching contributions from FHFA 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 contingencies 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.

O. CLASSIFIED ACTIVITIES

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

P. INTER-ENTITY COSTS

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the component reporting entity are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The unobligated and obligated balances reported in the FBWT may not equal related amounts reported on the Combined Statements of Budgetary Resources. The unobligated and obligated balances reported on the Combined Statements of Budgetary Resources are supported by the FBWT, as well as other budgetary resources that do not affect the FBWT (i.e., unfilled customer orders). The funds in the working capital fund were fully invested during FY 2022 and FY 2021. FBWT account balances as of September 30, 2022 and 2021 were as follows (dollars in thousands):

	2022		2021	
Status of Fund Balance with Treasury:				
Unobligated Balance				
Available	$	59,778	$	85,455
Obligated Balance Not Yet Disbursed		70,058		60,194
Investments		(113,898)		(130,025)
Total	**$**	**15,938**	**$**	**15,624**

Note 3. Investments

Investments as of September 30, 2022 consist of the following (dollars in thousands):

	Cost		Amortized (Premium) Discount		Interest Receivable		Investments Net		Market Value Disclosure	
Intragovernmental Securities:										
Non-Marketable										
Market-Based	$	113,898	$	-	$	-	$	113,898	$	113,898

Investments as of September 30, 2021 consist of the following (dollars in thousands):

	Cost		Amortized (Premium) Discount		Interest Receivable		Investments Net		Market Value Disclosure	
Intragovernmental Securities:										
Non-Marketable										
Market-Based	$	130,025	$	-	$	-	$	130,025	$	130,025

Non-marketable, Government Account Series 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 Treasury. There were no amortized premiums/discounts on investments as of September 30, 2022 or 2021. Interest earned on investments was $1.3 million and $99 thousand for FY 2022 and FY 2021, respectively.

Note 4. Accounts Receivable, Net

Accounts Receivable balances as of September 30, 2022 and 2021 were as follows (dollars in thousands):

	2022	2021
Intragovernmental		
Accounts Receivable	$ -	$ -
Total Intragovernmental Accounts Receivable	**$ -**	**$ -**
With the Public		
Accounts Receivable	$ 3	$ 5
Allowance for Uncollectible Accounts Receivable	$ -	$ -
Total With the Public Accounts Receivable	**$ 3**	**$ 5**
Total Accounts Receivable	**$ 3**	**$ 5**

Note 5. General Property, Plant, and Equipment, Net

Schedule of General Property, Plant, and Equipment as of September 30, 2022 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 22,740	$ 22,544	$ 196
Leasehold Improvements	36,135	24,895	11,240
Internal-Use Software	1,728	1,728	-
Machinery and Equipment Under Capital Lease	274	250	24
Construction-in-Progress	216	-	216
Total	**$ 61,093**	**$ 49,417**	**$ 11,676**

Schedule of General Property, Plant, and Equipment as of September 30, 2021 (dollars in thousands):

Major Class	Acquisition Cost		Accumulated Amortization/ Depreciation		Net Book Value	
Equipment	$	22,733	$	22,421	$	312
Leasehold Improvements		34,730		22,410		12,320
Internal-Use Software		1,728		1,728		-
Machinery and Equipment Under Capital Lease		274		193		81
Construction-in-Progress		922		-		922
Total	**$**	**60,387**	**$**	**46,752**	**$**	**13,635**

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. Liabilities Covered and Not Covered by Budgetary Resources

There are not any liabilities under the category of not requiring Budgetary Resources. Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2022 consist of the following (dollars in thousands):

	Covered		Not Covered		Total	
Intragovernmental Liabilities						
Accounts Payable	$	961	$	-	$	961
Other Intragovernmental Liabilities		2,936		-		2,936
Total Intragovernmental Liabilities	**$**	**3,897**	**$**	**-**	**$**	**3,897**
With the Public						
Accounts Payable	$	11,631	$	-	$	11,631
Unfunded Accrued Annual Leave		-		20,714		20,714
FECA Actuarial Liabilities		-		139		139
Deferred Lease Liabilities		-		15,489		15,489
Other Liabilities		4,385		-		4,385
Total With the Public Liabilities	**$**	**16,016**	**$**	**36,342**	**$**	**52,358**
Total Liabilities	**$**	**19,913**	**$**	**36,342**	**$**	**56,255**

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2021 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 883	$ -	$ 883
Other Intragovernmental Liabilities	4,134	-	4,134
Total Intragovernmental Liabilities	**$ 5,017**	**$ -**	**$ 5,017**
With the Public			
Accounts Payable	$ 8,052	$ -	$ 8,052
Unfunded Accrued Annual Leave	-	20,501	20,501
FECA Actuarial Liabilities	-	201	201
Deferred Lease Liabilities	-	17,922	17,922
Other Liabilities	8,823	-	8,823
Total With the Public Liabilities	**$ 16,875**	**$ 38,624**	**$ 55,499**
Total Liabilities	**$ 21,892**	**$ 38,624**	**$ 60,516**

Note 7. 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. All Other Liabilities are considered current liabilities. Payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Other Liabilities as of September 30, 2022 and September 30, 2021 consist of the following (dollars in thousands):

	2022	2021
Intragovernmental Liabilities		
Benefit Program Contributions Payable	$ 1,106	$ 2,088
Employer Contributions and Payroll Taxes Payable	223	436
Total Intragovernmental Other Liabilities	**$ 1,329**	**$ 2,524**
With the Public		
Deferred Lease Liability	$ 15,489	$ 17,923
Employer Benefit Contributions	326	720
Accrued Funded Payroll	4,032	8,018
Employee Related Refunds Due	3	3
Capital Lease Liability	24	81
Total With the Public Other Liabilities	**$ 19,874**	**$ 26,745**

Note 8. Leases

Operating Leases

NON-FEDERAL LEASES:

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. 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.

FHFA OIG entered into an Occupancy Agreement (OA) with the General Services Administration (GSA) for its regional office spaces in Los Angeles, CA, Tampa, FL, Newark, NJ, Chicago, IL, St. Louis, MO, and Plano, TX. In these leases, FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice.

Future Payments Due for Non-Cancellable Operating Leases				
Future Payment Due	**Land & Buildings**		**Totals**	
	Federal	Non-Federal	Federal	Non-Federal
Fiscal Year 2023		$ 21,093		$ 21,093
Fiscal Year 2024		$ 21,515		$ 21,515
Fiscal Year 2025		$ 21,946		$ 21,946
Fiscal Year 2026		$ 22,385		$ 22,385
Fiscal Year 2027		$ 7,518		$ 7,518
After 5 Years		$ -		$ -
Total Future Lease Payments		**$ 94,457**		**$ 94,457**

Capital Lease

FHFA entered into a non-federal capital lease for 28 copiers located at 400 7th Street SW - Constitution Center on February 1, 2018. The leased equipment is amortized on a straight line basis over five years. The lease was fully funded at its inception. There is no salvage value, and the copiers will be returned to the vendor upon termination of the lease. The following is a schedule showing the future minimum lease payments under capital lease by years and the present value of the minimum lease payments as of September 30, 2022 (dollars in thousands). The interest rate related to the lease obligation is 2.5 percent and the maturity date is February 2023.

FHFA OIG does not have capital leases arrangements.

	2022		2021	
Summary of Assets Under Capital Lease				
Machinery and Equipment (Copiers)	$	274	$	274
Accumulated Amortization		(250)		(193)
Total Net Value	**$**	**24**	**$**	**81**

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

Fiscal Year	Amount	
2023		56
Total Future Payments	$	56
Less: Imputed Interest	$	0
Less: Executory Costs	$	(32)
Net Capital Lease Liability	$	24
Capital Lease Liabilities Covered By Budgetary Resources	$	56
Capital Lease Liabilities Not Covered By Budgetary Resources	$	-

Note 9. Commitments and Contingencies

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2022 and 2021.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the regulated entities. The regulated entities include Freddie Mac, Fannie Mae, the FHLBanks, and the Office of Finance. FHFA tracks program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. Strategic Goals 1) Safety and Soundness; 2) Liquid, Efficient, and Resilient Markets; and 3) Strengthen the Workforce and Infrastructure, guide program offices to carry out FHFA's vision and mission. FHFA has an indirect program support element 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 as part of FHFA's indirect program support element. Earned revenue is reported at the total level only. While FHFA's Strategic Goals were amended in mid-FY 2022, the underlying intention for the Goals is looking forward to FY 2023-2024. The intention and reporting of the Goals for FY 2022 remained unchanged. The comparison between the two years is an accurate representation of FHFA's programs.

FHFA's revenue was provided by the regulated entities through assessments. FHFA OIG's spending authority is a combination of unobligated funds carried forward from the previous year and the transfer of new assessments from FHFA for the current year. For both FY 2022 and FY 2021, the combined total spending authority for the FHFA OIG was $49.9 million annually. FHFA OIG's gross expenses for FY 2022 and FY 2021 were $49.6 million and $48.4 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 entities for goods and/or services, such as payroll processing services received from the Department of Agriculture/Department of the 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):

	2022	2021
Safety and Soundness		
Intragovernmental Costs	$ 34,985	$ 32,461
With the Public Costs	145,288	137,475
Gross Safety and Soundness Program Costs	**180,273**	**169,936**
Liquid, Efficient, and Resilient Markets		
Intragovernmental Costs	12,352	12,006
With the Public Costs	46,911	46,428
Gross Liquid, Efficient, and Resilient Markets Program Costs	**59,263**	**58,434**
Strengthen the Workforce and Infrastructure		
Intragovernmental Costs	19,473	18,073
With the Public Costs	79,345	71,112
Gross Strengthen the Workforce and Infrastructure Program Costs	**98,818**	**89,185**
Total Intragovernmental Costs	66,810	62,540
Total With the Public Costs	271,544	255,015
Gross Program Costs	338,354	317,555
Less: Total Intragovernmental Earned Revenue	(2,832)	(1,620)
Less: Total With the Public Earned Revenue	(317,495)	(335,234)
Total Net Cost of Operations	**$ 18,027**	**$ (19,299)**

Note 11. Net Adjustments to Unobligated Balance Brought Forward, October 1

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

	2022	2021
Unobligated Balance Brought Forward, October 1	$ 85,455	$ 55,995
Recoveries of Prior Year Obligations	13,165	9,476
Other Changes in Unobligated Balance	664	376
Unobligated Balance from Prior Year Budget Authority, Net	**$ 99,284**	**$ 65,847**

Note 12. 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, 2022, and 2021, the unobligated balance was $59.8 million and $85.4 million, respectively. FHFA may retain the FY 2022 unobligated balance of $22.8 million for operating expenses, for the working capital fund, or for conservatorship/Enterprise-related expenses during FY 2023. FHFA retained a portion of the FY 2021 unobligated balance for conservatorship/Enterprise-related expenses during FY 2022 (See Note 2. Fund Balance With Treasury).

Note 13. Budgetary Resource Comparisons to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). The FY 2024 President's Budget will include the actual budgetary execution information for FY 2022. The FY 2024 President's Budget is scheduled for publication in February 2023 and can be found at the OMB Website.[33] The FY 2023 President's Budget, with the "Actual" column completed for 2021, has been reconciled to the FY 2021 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	$ 448,914	$ 363,459	$ 335,328	$ 304,306
Rounding	86	541	(328)	694
Budget of the U.S. Government	449,000	364,000	335,000	305,000
Total Unreconciled Difference	$ -	$ -	$ -	$ -

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

Note 14. Undelivered Orders at the End of the Period

Undelivered Orders balance as of September 30, 2022 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 607	$ 5,594
Unpaid Undelivered Orders	4,053	48,019
Total Undelivered Orders	**$ 4,660**	**$ 53,613**

Undelivered Orders balance as of September 30, 2021 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 655	$ 2,161
Unpaid Undelivered Orders	3,651	36,261
Total Undelivered Orders	**$ 4,306**	**$ 38,422**

Note 15. Incidental Custodial Collections

FHFA's custodial collections primarily consist of fines and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the Agency nor material to the overall financial statements. FHFA's custodial collections are $244 for the year ended September 30, 2022. Custodial collections totaled $300 for the year ended September 30, 2021. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

Note 16. Budget and Accrual Reconciliation

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

For the Year Ended September 30, 2022	Intragovernmental	With the Public	Total
Net (Income From)/Cost of Operations	**$ 63,978**	**$ (45,951)**	**$ 18,027**
Components of Net Cost Not Part of the Budgetary Outlays			
Property, Plant, and Equipment Depreciation Expense		(2,806)	(2,806)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	118	(2)	116
Other Assets	(48)	3,433	3,385
(Increase)/Decrease in Liabilities:			
Accounts Payable	(166)	(3,579)	(3,745)
Advances and Prepayments	3	-	3
Federal Employee and Veteran Benefits Payable	-	(151)	(151)
Other Liabilities	1,166	6,871	8,037
Financing Sources:			
Imputed Cost	(7,899)		(7,899)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (6,826)**	**$ 3,766**	**$ (3,060)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	632	215	847
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 632**	**$ 215**	**$ 847**
Miscellaneous Items			
Distributed Offsetting Receipts (SBR 4200)	(1,254)	(317,485)	(318,739)
Non-Entity Activity	-	-	-
Appropriated Receipts for Trust/Special Funds	1,254	317,485	318,739
Total Other Reconciling Items	**$ -**	**$ -**	**$ -**
Total Net Outlays (Calculated Total)	**$ 57,784**	**$ (41,970)**	**$ 15,814**
Budgetary Agency Outlays, Net (SBR 4210)			
Agency Outlays, Net (SBR 4210)			**$ 15,814**

For the Year Ended September 30, 2021	Intragovernmental	With the Public	Total
Net (Income From)/Cost of Operations	**$ 60,921**	**$ (80,219)**	**$ (19,299)**
Components of Net Cost Not Part of the Budgetary Outlays			
Property, Plant, and Equipment Depreciation Expense		(3,037)	(3,037)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	45	1	47
Other Assets	20	(770)	(750)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(112)	119	7
Advances and Prepayments	(189)	-	(189)
Federal Employee and Veteran Benefits Payable	-	(2,203)	(2,203)
Other Liabilities	(473)	1,057	584
Financing Sources:			
Imputed Cost	(7,187)		(7,187)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (7,896)**	**$ (4,832)**	**$ (12,728)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	250	750	1,001
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 250**	**$ 750**	**$ 1,001**
Miscellaneous Items			
Distributed Offsetting Receipts (SBR 4200)	(99)	(335,229)	(335,328)
Non-Entity Activity	5	-	5
Appropriated Receipts for Trust/Special Funds	99	335,229	335,328
Total Other Reconciling Items	**$ 5**	**$ -**	**$ 5**
Total Net Outlays (Calculated Total)	**$ 53,280**	**$ (84,301)**	**$ (31,021)**
Budgetary Agency Outlays, Net (SBR 4210)			
Agency Outlays, Net (SBR 4210)			**$ (31,021)**

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Audits and Evaluations

Every year, the Federal Housing Finance Agency (FHFA) receives and responds to numerous performance audits, assessments, and evaluations concerning the effectiveness and efficiency of projects, policies, and programs. The FHFA Office of Inspector General (OIG) conducts performance audits, compliance reviews, and evaluations of Agency systems and programs.

The U.S. Government Accountability Office (GAO) conducts an annual financial statements audit of FHFA and periodically conducts other assessments or reviews of the Agency. OIG also issues an annual assessment of FHFA's Management and Performance Challenges, which is presented on pages 109-118.

Table 18: Audits and Evaluations

FHFA OIG REPORTS			
1	Risk Assessment of FHFA's Government Purchase Card and Travel Card Programs, April 1, 2021 – March 31, 2022	OIG-RA-2022-002	2022-09-19
2	Enterprise Use of Artificial Intelligence and Machine Learning	WPR-2022-002	2022-09-19
3	FHFA Could Enhance the Efficiency of the Agency's Oversight of Enterprise Executive Compensation by Ensuring Sufficient Human Capital Resources and Updating Procedures	EVL-2022-003	2022-09-27
4	FHFA is Addressing Deficient Cybersecurity Incident Reports by the Enterprises	COM-2022-009	2022-09-22
5	FHFA Has Not Consistently Collected and Destroyed Identification Cards from Separating Personnel, but Has Otherwise Substantially Adhered to its Offboarding Procedures	COM-2022-008	2022-09-08
6	FHFA Did Not Always Follow Federal Regulations and Its Policy for Employee Financial Disclosures During Fiscal Years 2020 and 2021	AUD-2022-011	2022-09-08
7	FHFA Did Not Fully Comply with DHS Binding Operational Directives for Securing Its Public Websites and Publishing Its Vulnerability Disclosure Policy	AUD-2022-010	2022-08-31
8	Audit of the Federal Housing Finance Agency's Information Security Program and Practices Fiscal Year 2022	AUD-2022-009	2022-07-28
9	FHFA's Division of Enterprise Regulation Substantially Adhered to its Rotation Policy for Examination Leader Assignments Despite Not Tracking Them Consistently	COM-2022-007	2022-07-11
10	FHFA's Visibility Into the Enterprises' Credit Risks Has Increased by Reviewing Significantly More of Their Proposed Mortgage Selling Policies Before Implementation	COM-2022-006	2022-07-06
11	Fannie Mae and Freddie Mac Fourth-Party Risk	WPR-2022-001	2022-06-28
12	FHFA Has Laid the Groundwork to Integrate Consideration of Climate-Related Financial Risk into its Policies and Programs but Plans and Methodologies to Accomplish This Work Are in the Early Stages of Development	AUD-2022-008	2022-06-23
13	FHFA Ensured that Fannie Mae Submitted Required Property Valuation Data to the Agency's Mortgage Loan Integrated System	COM-2022-005	2022-05-31
14	FHFA Did Not Always Follow its Procedures When Reviewing the Enterprises' Draft SEC Filings, But Plans to Take Corrective Action	AUD-2022-007	2022-05-12
15	FHFA Adequately Designed and Implemented Controls to Detect and Prevent Improper Vendor Payments During Fiscal Year 2021	AUD-2022-006	2022-03-30

Table 18: Audits and Evaluations			
16	Oversight of Multifamily Borrowers' Compliance with CARES Act and Freddie Mac Tenant Protections and Freddie Mac's Response to the Potential Financial Impact of COVID-19	OIG-2022-003	2022-03-24
17	DER Followed its Guidance to Prepare, Review, and Issue the 2020 CSS Report of Examination	AUD-2022-005	2022-03-23
18	FHFA's Public Reporting of the Enterprises' Progress Toward the Objectives FHFA Set in the 2020 Conservatorship Scorecard Lacked the Detail and Transparency of Past Reporting	EVL-2022-002	2022-03-17
19	FHFA's Division of Enterprise Regulation Has Made Progress in Its Quality Control Program but Needs to Ensure Adequate Reporting and Feedback Is Provided to Management	EVL-2022-001	2022-03-07
20	Contrary to OMWI's FY 2016-2018 Strategic Plan, FHFA Developed and Implemented Internal Diversity Standards to Which it Does Not Adhere Fully, and it Has Not Established a Financial Literacy Program	COM-2022-004	2022-02-16
21	Report of Administrative Inquiry into a Whistleblower Complaint Concerning an Enterprise Executive Compensation Matter	OI/OIG-2022-001	2022-01-28
22	The Enterprises Substantially Complied with FHFA's Revised Fraud Reporting Requirements	COM-2022-003	2022-01-19
23	Fannie Mae Successfully Implemented its Compliance Plan for FHFA's NPL Post-Sale Data Collection Requirements	COM-2022-002	2022-01-18
24	FHFA Generally Complied with its Updated Guidance for Procurement Peer Reviews	COM-2022-001	2022-01-14
25	FHFA's Ability to Fill Positions Was Hampered by an Unreliable Internal Management Reporting Tool, Failure to Review its Hiring Practices, and Lack of Training	AUD-2022-004	2022-01-05
26	FHFA's Recent Changes to its Housing Finance Examiner Commission Program	OIG-2022-002	2021-12-15
27	FHFA Did Not Follow All of its Contingency Planning Requirements for the National Mortgage Database (NMDB) or its Correspondence Tracking System (CTS)	AUD-2022-003	2021-12-13
28	Report of Administrative Inquiry: FHFA Has Determined that the Enterprises Can Absorb the Full Cost of CARES Act Mortgage Forbearance	OIG-2022-001	2021-11-03
29	Audit of the Federal Housing Finance Agency's Information Security Program, Fiscal Year 2021	AUD-2022-001	2021-10-15
GAO REPORTS			
1	Federal Housing Finance Agency: Capital Planning and Stress Capital Buffer Determination	B-334366	2022-06-17
2	Federal Housing Finance Agency: Enterprise Regulatory Capital Framework—Public Disclosures for the Standardized Approach	B-334361	2022-06-14
3	Federal Housing Finance Agency: Enterprise Regulatory Capital Framework—Prescribed Leverage Buffer Amount and Credit Risk Transfer	B-334117	2022-03-22
4	Federal Housing Finance Agency: 2022-2024 Single-Family and 2022 Multifamily Enterprise Housing Goals	B-333875	2022-01-10
5	Financial Audit: Federal Housing Finance Agency's FY 2021 and FY 2020 Financial Statements	GAO-22-105109	2021-11-15

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports. Tables 19, 20 and 21 provide information on final action taken by management on audit reports for Fiscal Year (FY) 2022.

Table 19: Management Report on Final Action on Audits with Disallowed Costs for FY 2022

	Audit Report	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 20: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2022

	Audit Report	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

Table 21: Audit Reports Without Final Actions but with Management Decisions Over One Year Old for FY 2021		
Report No. and Issue Date	**Recommendation**	**Management Action**
More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations (EVL-2020-003), September 10, 2020	Recommendation 2	Actions are expected to be completed by March 31, 2023
Audit of FHFA's 2021 Privacy Program (AUD-2021-011), August 11, 2021	Recommendation 1	Actions are expected to be completed by December 31, 2022
FHFA's Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director's Statutory Duty to Ensure the Enterprises Comply with FHFA's Guidelines, (OIG-2021-004), September 20, 2021	Recommendation 1	Actions are expected to be completed by February 15, 2023

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, 2022

TO: Sandra L. Thompson, Director, FHFA

FROM: Brian M. Tomney, Inspector General

SUBJECT: Fiscal Year 2023 Management and Performance Challenges

This memorandum, issued pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531), provides the Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General's (OIG) identification of the most serious management and performance challenges facing the Agency.

The Housing and Economic Recovery Act of 2008 created FHFA, which is responsible for the effective supervision, regulation, and housing mission oversight of its regulated entities: Fannie Mae and Freddie Mac (collectively, the Enterprises); Common Securitization Solutions, LLC (CSS), an affiliate of each Enterprise; and the 11 Federal Home Loan Banks (FHLBanks) and their fiscal agent, the Office of Finance (collectively, the FHLBank System). In addition, since September 2008, FHFA has served as conservator of the Enterprises.

For fiscal year 2023, we have identified the following management and performance challenges facing FHFA:

- Effective supervision of the regulated entities
- Stewardship of the Enterprise conservatorships
- Oversight of information risk for the regulated entities
- Oversight of counterparty risk, third-party risk, and fourth-party risk for the regulated entities
- Oversight of model risk for the regulated entities
- Oversight of people risk for the regulated entities
- Oversight of resiliency risk for the regulated entities

The first four challenges reiterate themes we identified in prior years. At the outset, it is important to note that continued inclusion of a challenge area does not necessarily indicate a lack of progress by FHFA; rather, it indicates that a particular area remains a challenge. This year we also highlight FHFA's oversight of key operational risks at the regulated entities, including model risk, people risk, and resiliency risk, as discussed below.

Importantly, these challenges naturally are interconnected. FHFA's functions as supervisor for the regulated entities, as well as conservator for the Enterprises, encompass its oversight of all the operational risk challenge areas. Further, the operational risk areas themselves overlap. For example, a regulated entity might contract with a third-party for cloud services, which may impact information, third-party, people, and resiliency risks. In addition to overseeing the regulated entities, FHFA must also manage risks, such as information, people, and resiliency risk, in its own operations.

We conduct our oversight work primarily through audits, evaluations, compliance reviews, and investigative work. We use a risk-based approach, focusing our FHFA OIG FY 2023 Annual Plan on the top management and performance challenges. Information on specific ongoing and planned oversight work is available in that plan.

Challenge: Effective Supervision of the Regulated Entities

FHFA is charged with supervising the regulated entities, and effective supervision remains critical to their safe and sound operation. The regulated entities serve a vital function by providing liquidity and stability to the secondary mortgage market, and they manage more than $8 trillion of assets. Beginning in 2008, a precipitous decline in the Enterprises' safety and soundness required nearly $200 billion in taxpayer support to keep them afloat. For these reasons, we have deemed FHFA's supervision of the regulated entities a top management challenge.

Challenges associated with FHFA's supervision of the regulated entities arise in various ways. For example, FHFA has undergone considerable personnel changes and struggled, at times, to maintain stable Enterprise supervision leadership and a sufficient corps of commissioned examiners. FHFA changed its Division of Enterprise Regulation (DER) leadership in 2020, with another DER leadership change in September 2021. Similarly, FHFA announced a new Deputy Director for its Division of Federal Home Loan Bank Regulation in August 2022, following on the heels of a September 2021 personnel change in that division. The Agency is also challenged to maintain the skilled workforce necessary to supervise the Enterprises. Other federal financial regulators have commissioning programs through which they instruct and train staff to become commissioned examiners. FHFA established a program in 2013 but has struggled to produce and retain commissioned examiners.

In overseeing the Enterprises' capital, the Agency possesses the dual challenge to consider both its supervisory obligation to ensure safety and soundness and its conservator role to position the Enterprises to potentially exit conservatorship. Historical transfers of excess capital to the U.S. Treasury Department (Treasury Department) limited the Enterprises' ability to retain capital and become adequately capitalized. However, as a result of changes in the Senior Preferred Stock Purchase Agreements (PSPAs) between FHFA and the Treasury Department, the Enterprises now retain more of their earnings and are again building capital. These PSPA changes, along with strong income, have increased the Enterprises' net worth. Fannie Mae's capital reserves increased from $14.6 billion at year-end 2019 to $51.8 billion by March 31, 2022. In the same

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period, Freddie Mac's capital reserves increased from $9.1 billion to $31.7 billion. FHFA must continue to supervise the Enterprises to ensure that they work to meet regulatory capital requirements.[1]

The Agency also must ensure its supervision of the regulated entities includes due consideration of a myriad of emerging risks. In particular, there has been increased consumer demand for technology in traditional processes, such as buying a home. Rapid technological advances create uncertainty, which in turn, can increase risk at the regulated entities.

Recognizing many of these challenges to effective supervision of the regulated entities, the Agency has implemented certain policy and organizational changes.[2] FHFA amended the Enterprises' regulatory capital framework and modified the capital treatment for retained credit risk transfer exposure to encourage the use of credit risk transfer without increasing safety and soundness risks posed by some transactions. The Agency also established an Office of Financial Technology in July 2022. In doing so, it solicited public input on the role of technology in housing finance and on how FHFA can most constructively interact with other stakeholders to facilitate responsible innovation. It is important for FHFA to continue monitoring the risks related to its supervision of the regulated entities, especially in light of the intersection of its supervision and conservator responsibilities for the Enterprises.

Challenge: Stewardship of the Enterprise Conservatorships

As noted above, FHFA's role as both supervisor and conservator for the Enterprises continues to present unique challenges. As supervisor, FHFA has a statutory duty to ensure that its regulated entities operate in a safe and sound manner. As conservator, FHFA has broad authority over the Enterprises and is directly involved in certain business decisions subject to the Agency's supervisory oversight. Considering the taxpayers' sizeable investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' central 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 management challenge.

To be sure, uncertainty with regard to the duration of the conservatorships exacerbates this challenge. As you have said in congressional testimony, FHFA can take certain actions to address the conservatorships of the Enterprises, but the Agency defers to Congress to act to resolve the conservatorships. There have been proposals from Congress regarding the Enterprise

[1] The Housing and Economic Recovery Act of 2008 requires FHFA to establish, by regulation, risk-based capital requirements for Fannie Mae and Freddie Mac to maintain sufficient capital and reserves to support the risks that arise in the operations and management of the Enterprises. The Agency's Enterprise Regulatory Capital Framework, as amended, establishes and governs these requirements. *See* FHFA, *Final Rule to Amend the Enterprise Regulatory Capital Framework* (Feb. 25, 2022).

[2] OIG has no position on the effectiveness of any policy or organizational change unless or until we conduct oversight work in a particular area.

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conservatorships, but no proposed legislation resolving the conservatorships has become law. Thus, the Enterprises have remained in conservatorship for 14 years.

In its role as conservator, the Agency is also required to maintain liquidity for the Enterprises' mortgage-backed securities (MBS). In 2014, FHFA directed the Enterprises to build infrastructure that would facilitate issuance of the Uniform Mortgage-Backed Security (UMBS) to establish and maintain a single liquid market for Fannie Mae and Freddie Mac MBS.[3] Subsequent to the launch of the UMBS, the Enterprises also started issuing securities that allow commingling of Fannie Mae and Freddie Mac collateral. After FHFA, as conservator, approved the Enterprises' announcement of a new fee for the commingled securities effective July 1, 2022, market participants expressed concerns to the Agency about the potential fee's effects on the UMBS market.

Here, as with other areas, FHFA has taken some steps to address the challenges noted. Similar to rules issued by the other federal financial regulators requiring plans for the orderly bankruptcy resolution of a firm in the event of material financial distress or failure, FHFA established a rule in 2021 that the Enterprises must provide resolution plans to the Agency by April 2023. According to FHFA, those plans are in progress, but the Enterprises will have to continue to work to complete the plans by the established deadline. In response to market feedback on the potential fee for commingled Enterprise securities, the Agency stated it would explore alternatives to ensure the long-term viability of the UMBS. As FHFA continues in its role as conservator, the Agency will need to ensure that it exercises appropriate engagement as conservator, while also recognizing that those decisions are subject to supervisory oversight by FHFA.

Challenge: Oversight of Information Risk for the Regulated Entities

FHFA's regulated entities comprise central components of the U.S. financial system and interconnect with other large financial institutions. They receive, store, and transmit highly sensitive private information about borrowers and businesses, including financial data and personally identifiable information. Because FHFA and the regulated entities rely on copious amounts of information, the risk of incomplete, inaccurate, unprotected, or inappropriately managed information negatively impacting the regulated entities and housing finance sector is significant. The large volume of information, along with the interconnectedness of several other operational risk areas, leaves FHFA challenged to comprehensively oversee information risk at the regulated entities. This includes risks related to data management, information access, cybersecurity, information physical security, and privacy.

The Financial Stability Oversight Council reported that a destabilizing cybersecurity incident could potentially threaten the stability of the U.S. financial system by disrupting a key financial service or utility, causing a loss of confidence among a broad set of customers or market

[3] UMBS is a security issued either by Fannie Mae or Freddie Mac and backed by that Enterprise's single-family fixed-rate mortgages.

participants, or compromising the integrity of critical data.[4] This risk becomes even more critical for the regulated entities to manage and for FHFA to oversee considering the regulated entities' footprint and role in the financial markets.

According to FHFA, while both Enterprises employ information security programs, operational risks remain elevated given increased exposure to cybersecurity threats.[5] Similarly, the Agency assessed an elevated risk to information at the FHLBanks because of continued remote operations, expanded telework related to the COVID-19 pandemic, and ongoing information technology initiatives at many FHLBanks. In the current environment of ever-increasing cybersecurity attacks and data breaches, it remains imperative that FHFA continues to oversee information risk for its regulated entities.

Challenge: Oversight of Counterparty Risk, Third-Party Risk, and Fourth-Party Risk for the Regulated Entities

The regulated entities rely on institutional counterparties for matters that are critical to their business. Reliance on counterparties is not unusual in today's business environment, but it requires the regulated entities to account for and mitigate related risks. For example, counterparty credit risk, which is the risk associated with the inability or failure of a counterparty to meet its contractual obligations, is a heightened risk and must be considered and mitigated. The Enterprises' counterparties include entities, such as sellers, servicers, mortgage insurers, custodial depository institutions, and reinsurers. The FHLBanks' primary exposures to institutional counterparty credit risk stem from unsecured money market transactions with domestic and foreign counterparties, derivative counterparties, and mortgage servicers that service loans the FHLBanks purchased from members or housing associates.

Counterparty credit risk can arise due to concentration among a limited number of counterparties, defaults, or inadequate or ineffective oversight. FHFA recognizes that such risk is significant. If an institutional counterparty defaults on its obligations, it could negatively impact an entity's ability to operate. Moreover, as our criminal investigations and prosecutions continue to demonstrate, fraud perpetrated by different types of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies, is persistent. Additionally, prolonged periods of financial stress, as seen during the pandemic, might cause adverse financial outcomes such as counterparty financial difficulties and failures. Of note, non-depository counterparties to the regulated entities might pose greater risk because they do not have the same financial strength or operational capacity, nor are they subject to the same level of regulatory oversight, as depository institutions.

The regulated entities also rely on third-parties to provide numerous products and services. For example, third-parties provide critical operational support and information technology services

[4] See Financial Stability Oversight Council's 2021 Annual Report.

[5] See FHFA's 2021 Report to Congress.

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supporting the regulated entities. As with counterparties, this third-party reliance comes with risk, namely that the third-party will not deliver the product or service as expected. The Enterprises, in particular, have risk from CSS, which administers their portfolios of MBS and issues UMBS.[6] CSS's underlying platform stores, processes, and transmits large volumes of data.

Third-parties to the regulated entities rely on their own third-parties, which are fourth-parties to the regulated entities. Like third-parties, fourth-parties pose risk that must be managed. Managing fourth-party risk can be challenging due to limited direct oversight of fourth-parties. Typically, the entities do not have contracts with their fourth-parties. Instead, the third-parties have the direct contractual relationship with the fourth-parties. Demonstrating the interconnected nature of the risks, the regulated entities must consider information security issues related to their third- and fourth-parties.

The regulated entities rely on counter-, third-, and fourth-parties for their businesses, and thus, are reliant on them to meet their mission. As explained above, these relationships involve a number of risks. FHFA is challenged to oversee those risks, especially when considering the multiple ways they can present.

Challenge: Oversight of Model Risk for the Regulated Entities

The Enterprises rely heavily on models to measure and monitor risk exposures and make business decisions. They use models extensively for mortgage underwriting, collateral valuation, home price forecasting, mortgage cash flow analysis, financial reporting, risk management, risk measurement, stress testing, portfolio management, hedging, financial instrument valuation, measuring compliance with internal risk limits, and capital reserves measurement. The FHLBanks also use models in making business decisions and for financial reporting. According to the FHLBank Combined Financial Report for 2021, each FHLBank makes significant use of models for managing, measuring, and monitoring risks. They also use models to determine the fair value of financial instruments when independent price quotations are not available.

Models explain relationships by processing data into estimates. Model risk can arise due to a model error or the incorrect use of model output and includes risk stemming from how models are developed, implemented, monitored, and used. For example, a model could be based on inappropriate methodology or data, or it might not receive necessary updates; users may lack understanding of model limitations; or adjustments, known as "overlays," could be inappropriately applied to model results.

FHFA and the regulated entities have recognized the risk presented by models. The Agency warns that misuse of models may lead to poor or costly decisions. The Enterprises classify their

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[6] CSS is an affiliate of each Enterprise that acts as agent for them to facilitate issuance of single-family mortgage securities and related disclosures, as well as administer the securities post-issuance. FHFA considers CSS to be an independent service provider to the Enterprises.

models according to the level of risk, and together, they had more than 50 models in their respective highest risk categories during the third quarter of 2021. FHFA's 2021 Report to Congress also identified examination concerns related to models for several FHLBanks.

Although the Agency issued guidance on model risk to its regulated entities, FHFA has been challenged to continue supervising the regulated entities' use of models. As recently as 2020, we found that the Agency had not assessed whether it had sufficient staff with the skills and competencies to examine the Enterprises' high-risk models. The complexity and sophistication of models require the Agency to have the appropriate examination resources to ensure the safety and soundness of its regulated entities. Further, Enterprise use of artificial intelligence and machine learning (AI/ML) in models, such as for automated property valuation, continues to grow and evolve.[7] This modeling technology requires the Agency to supervise fairness and equity concerns as poorly designed models developed using AI/ML may produce outcomes that benefit or harm some individuals, groups, or communities.[8] FHFA issued an advisory bulletin in February 2022 to provide the Enterprises with guidance on managing risks associated with the use of AI/ML, including model risk.

FHFA's oversight of this area becomes more challenging because of the uncertainty and shifting nature of the current economy. In a rapidly changing economic environment, a regulated entity may use more management judgment to adjust or "overlay" their models. At the outset of the pandemic, for example, both Enterprises made model adjustments that increased their estimates of their single-family credit losses. As another example, with interest rates as an important component in several of the regulated entities' financial models, the rapidly changing interest rate environment in 2022 increases the uncertainty of the assumptions and expectations in models. The introduction of more change and uncertainty may hinder the accuracy of the regulated entities' models. As both the economy and modeling techniques continue to evolve, it is crucial for FHFA to keep abreast of model risk and take appropriate action to address that risk.

Challenge: Oversight of People Risk for the Regulated Entities

To accomplish their missions, FHFA and the regulated entities must attract, develop, and retain a highly qualified, diverse workforce with specialized skills. An inability to do so can jeopardize mission accomplishment. People risk can manifest across a range of human capital related issues. It encompasses scenarios such as an organization not planning and assessing the effect of retirements or the loss of institutional knowledge. People risk also includes pervasive critical skill gaps and individuals making decisions adverse to the institution.

The last two years have posed significant changes and challenges to the American workforce. In 2021, according to the U.S. Bureau of Labor Statistics, over 47 million Americans voluntarily quit their jobs – a phenomena now commonly called the "great resignation." The Enterprises

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[7] *See* OIG, *Enterprise Use of Artificial Intelligence and Machine Learning* (Sept. 19, 2022) (WPR-2022-02).

[8] *See* FHFA, *Office of Minority and Women Inclusion Supervisory Letter on Artificial Intelligence and Machine Learning* (Feb. 10, 2022).

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have not been immune to turnover. The regulated entities require people with specialized, highly in-demand skills, for example, information security and technology-related skills. The rise of remote work has further exacerbated competition for employees, as the regulated entities must now compete with companies across the country and world to attract and retain top tier talent. In addition to the typical recruitment needs, recent workforce pressures can translate to thinned ranks, requiring the regulated entities to rebuild depth amidst already difficult recruitment and retention circumstances.

Further, several key senior executives departed recently, including both Enterprises' chief executive officers. The FHLBanks and CSS also lost key executives. Such leadership and key executive changes require FHFA's oversight to ensure the regulated entities continue managing risks and executing their mission during transitional times.

In addition to overseeing this risk at the regulated entities, FHFA must manage its own people risk. As with other challenges highlighted in this memorandum, change and uncertainty also affects FHFA's people risk. From June 2020 to December 2021, 281 employees, contractors, and other persons departed the Agency, including the former Director and other senior employees. As context, the Agency employed nearly 700 employees as of December 31, 2021. Some departures were long-time employees, with FHFA losing their years of institutional knowledge. Changes in FHFA leadership brought accompanying shifts in strategic direction and approach. These executive changes reinforce the need to manage people risk and attract and retain a workforce with the requisite skills and competencies to oversee its regulated entities. We have previously reported concerns about the lack of systematic workforce planning in segments of FHFA.[9] Although FHFA has taken steps to address those concerns, that work remains ongoing, and FHFA awaits work product from an external partner to determine the appropriate path forward. The Agency should continue its efforts to manage its people risk so it can execute its oversight responsibilities.

Challenge: Oversight of Resiliency Risk for the Regulated Entities

As noted, the regulated entities perform important roles in providing a stable source of funding for housing finance. Events such as a wide-scale power outage, natural disaster, or cyber-attack can jeopardize their ability to perform mission critical operations.

According to the Federal Financial Institutions Examination Council, resilience is "the ability to prepare for and adapt to changing conditions and withstand and recover rapidly from disruptions. Resilience includes the ability to withstand and recover from deliberate attacks, accidents, or naturally occurring threats or incidents." Resiliency risk describes the risk of loss from the inability to adapt to disruptions and maintain business operations. It can stem from risks related

[9] *See* OIG, *Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely* (Mar. 25, 2020) (EVL-2020-001) and *Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac* (Feb. 25, 2020) (AUD-2020-004).

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to crisis management, business continuity, disaster recovery, or incident response. The regulated entities' resiliency is particularly vital given their critical mission and importance to the financial markets.

Recent events, such as the COVID-19 pandemic and the spike in interest rates, underscore the role of resiliency at the regulated entities, and FHFA is challenged to ensure regulated entity resiliency when a disruption occurs. During the pandemic, more than 6% of Enterprise loans went into forbearance.[10] While FHFA reports that 96% of the homeowners that relied on forbearance have successfully exited the program, the situation underscores that an external event can cause uncertainty and payment problems. The pandemic also affected the regulated entities' operations, because they had to adopt strategies to accommodate remote workforces while still meeting their missions. In addition to operational complexities, refinances, which accounted for 65% of Freddie Mac's single-family acquisitions in 2021, have precipitously declined amid higher interest rates in 2022. Both Enterprises forecast a slowdown in home sales and expect mortgage originations to be almost $2 billion lower in 2022 than in 2021, which will affect their acquisition volume.

Meanwhile, the FHLBanks have seen significant fluctuations in advances resulting from the pandemic and subsequent government policy decisions. FHLBank members sought advances at the start of the COVID-19 pandemic in 2020, but the government's monetary policy provided relief, causing FHLBank members to retreat from advances. As of September 30, 2021, the FHLBanks had the lowest quarter-end level of advances since 2001; advance balances have increased since that time.

As large, complex organizations, the regulated entities require planned responses for disruptions related to people, operations and processes, equipment and facilities, and information technology and data across a wide array of hazards and risk scenarios in multiple geographic locations. Additionally, their resiliency programs must assess and ensure the resiliency of critical third-parties because they rely on thousands of third-parties, including for key components of their business operations. FHFA must continue to oversee the regulated entities' resiliency to ensure they are able to deliver on their mission.

Conclusion

Collectively, the risks posed by the areas described above are significant and, thus, merit continued attention by the Agency. The challenge for FHFA is to identify the facets of highest risk, effectively supervise the regulated entities while they engage in these areas, and remain nimble with their focus as matters continuously evolve. OIG's risk-based work will remain

[10] A November 2021 OIG administrative inquiry reported that FHFA has determined that the Enterprises can absorb the full cost of pandemic-related mortgage forbearance. *See* OIG, *Report of Administrative Inquiry: FHFA Has Determined that the Enterprises Can Absorb the Full Cost of CARES Act Mortgage Forbearance* (Nov. 3, 2021) (OIG-2022-001).

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grounded in these areas, and our audits, evaluations, and other projects will continue to identify findings and make appropriate recommendations to FHFA to strengthen its work.

cc: Edom Aweke, Associate Director
Katrina D. Jones, Chief Operating Officer
Clinton Jones, General Counsel
John Major, Risk Management and Compliance Branch Manager

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Summary of Financial Statements Audit and Management Assurances

Table 22: Summary of Financial Statements Audit					
Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 23: Summary of Management Assurances						
Effectiveness of Internal Control Over Financial Reporting (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control Over Operations (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (Federal Management Financial Integrity Act Paragraph 4)						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

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

Payment Integrity

The Payment Integrity Information Act of 2019 (PIIA), effective March 2, 2020, and its predecessor, the Improper Payments Information Act of 2002, as amended requires that agencies: (1) review programs' and activities' susceptibility to significant improper payments; (2) estimate the amount of annual improper payments for those programs and activities and implement a plan to reduce them; and (3) report the estimated amount of improper payments and the progress to reduce them. PIIA defines "improper payment" as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. The act defines "significant improper payments" as the gross annual improper payments exceeding either: a) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported; or b) $100 million (regardless of the percentage of total program outlays).

FHFA, which is funded with non-appropriated funds, complies in spirit with the Act, and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA contracts with the Bureau of the Fiscal Service (Fiscal Service) for accounting services, including payments to vendors. The supplier database is compared to the Do Not Pay portal on a weekly basis, and daily the vendor database is compared against the System for Award Management. A copy of the supplier database is validated against the Do Not Pay portal once a week. Additionally, matching results are pulled from the Do Not Pay portal once a week. The matching results are researched and acted on by Fiscal Service and FHFA, as appropriate. FHFA has not identified any programs or activities susceptible to significant improper payments that meet the Act's thresholds.

Civil Monetary Penalty Adjustment for Inflation

Table 24: Civil Monetary Penalty Adjustment for Inflation					
ENFORCEMENT REGULATIONS:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
Safety and Soundness Act 12 U.S.C. 4636 (b) (1)	First Tier	2008	2021	$12,771	Federal Register 87 (January 2022) 1659 – 1662
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2021	$63,855	Federal Register 87 (January 2022) 1659 – 1662
Safety and Soundness Act - 12 U.S.C. 4636 (b) (4)	Third Tier – Entity affiliated party and regulated entity	2008	2021	$2,554,223	Federal Register 87 (January 2022) 1659 – 1662
PROGRAM FRAUD CIVIL REMEDIES REGULATION:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (1)	Maximum penalty per false claim	2009	2021	$12,537	Federal Register 87 (January 2022) 1659 – 1662
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (2)	Maximum penalty per false statement	2009	2021	$12,537	Federal Register 87 (January 2022) 1659 – 1662
FLOOD INSURANCE REGULATION:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum penalty per violation	2009	2021	$621	Federal Register 87 (January 2022) 1659 – 1662
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum total penalties assessed against an Enterprise in a CY	2009	2021	$179,123	Federal Register 87 (January 2022) 1659 – 1662

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Glossary

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

Common Securitization Solutions, LLC (CSS) – The joint venture of Fannie Mae and Freddie Mac that owns and operates the Common Securitization Platform.

Community Investment Cash Advance (CICA) – CICA programs offer FHLBank advances or grants to FHLBank members and housing associates to provide financing for economic development activities that are targeted at specific beneficiaries, including small businesses and certain geographic areas, and can be used to finance economic development activities that benefit households at income levels greater than those permitted under the Community Investment Program.

Community Investment Program (CIP) – CIP programs offer FHLBank advances at the cost of consolidated Bank obligations of comparable maturities, taking into account reasonable administrative costs to FHLBank members to provide loans to households with incomes up to 115 percent of the area median income for the purchase or rehabilitation of housing, as well as for commercial and economic development activities that benefit low- and moderate-income families or that are located in low- and moderate-income neighborhoods.

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

Credit Risk Transfer (CRT) – The transfer of a portion of mortgage credit risk from the Enterprises to private investors.

Enterprise(s) – Fannie Mae and Freddie Mac.

GAO Green Book – GAO *Standards for Internal Control in the Federal Government*, GAO 14-704G

Loan-to-Value (LTV) – A measurement that compares the principal balance of a loan (the amount currently owed) to the actual value of the house.

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

Mortgage-Backed Security (MBS) – A type of asset-backed security that is secured by a mortgage or collection of mortgages.

Regulated Entities – Fannie Mae, Freddie Mac, and the FHLBanks.

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

Senior Preferred Stock Purchase Agreement (PSPA) – Capital stock owned by Treasury, 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.

Uniform Mortgage-Backed Security (UMBS) – A single-class MBS backed by fixed-rate mortgage loans on 1-to-4 unit (single-family) properties issued by either Enterprise, which has the same characteristics (such as payment delay, pooling prefixes, and minimum pool submission amounts) regardless of which Enterprise is the issuer. The UMBS was launched June 3, 2019.

Performance Measure Validation and Verification Template

Strategic Goal: ______________________________

Strategic Objective: ______________________________

Measure: ______________________________

____

Target: ______________________________

Goal Leader: ______________________________

Contact: ______________________________

Office: ______________________________

DEFINITION

a. What is the purpose or meaning of the measure?

b. Is there a certain timeframe that the activities in this measure must be completed by?

____

____

____

____

RELEVANCE OF MEASURE

a. Why is this measure important to the agency?

b. How does this measure keep FHFA focused on its mission? (Please describe in detail.)

____

____

____

____

VERIFICATION

a. How will the status be measured? (Please describe the process in detail.)

b. How will you know if the measure has been met?

c. How will the status of this measure be tracked on a quarterly basis?

(EXAMPLE: In order to calculate whether or not we have responded to at least 95 percent of the requests sent to FHFA during the same fiscal year that they were sent, we will begin by finding the total number of requests sent to FHFA during this fiscal year. Then, we will find the summation of the requests that we have responded to and take this number and divide it by the total number of requests. If this total is greater than 95 percent, we have met our target.)

VERIFICATION SOURCE

a. What evidence will you provide to the database to help substantiate the claim of whether the measure has been met, not met, or is on target? (Describe the methodology used.)

(Focus on verification sources that are explicit: If your measure says you will do something by a certain date, the verification source needs to make it clear that the task was completed by the date. If your measure says you will do something before another task begins, your verification source needs to show the date the task was completed and the date the dependent task begins.)

DATA CONSTRAINTS

a. What challenges could potentially arise that could impact the availability of the data you need to substantiate your measure status claim? (i.e., lag time, data availability, etc.)

OPEN RECOMMENDATIONS

a. Are there any open recommendations or findings from FHFA OIG or GAO that directly pertain to this measure?

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Acknowledgements

This PAR was produced through the energies and talents of FHFA staff. To them we offer our sincerest thanks and acknowledgement. We would like to acknowledge the U.S. Government Accountability Office for the professional manner in which it conducted the audit of FHFA's FY 2022 Financial Statements. This PAR was published with the assistance of Lista Design, Rancho Cucamonga, CA.

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