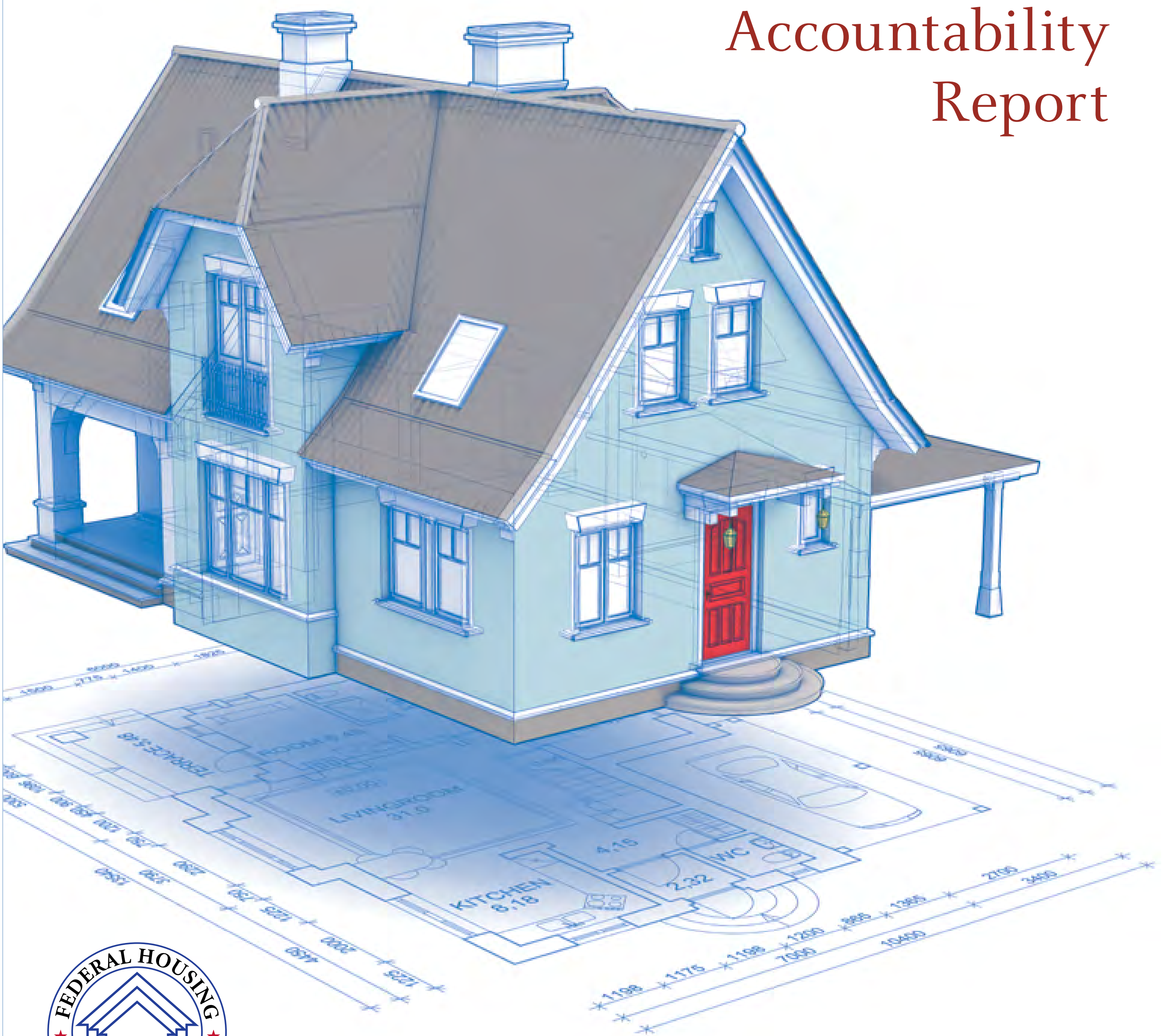
2013

FEDERAL HOUSING FINANCE AGENCY

Performance and Accountability Report



FEDERAL HOUSING FINANCE AGENCY
FHFA

PLANNING FOR THE FUTURE

MISSION

Ensure that the Housing Government-Sponsored Enterprises (GSEs) operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment.

VISION

A reliable, stable, and liquid housing finance system.

FHFA VALUES

Respect

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

Excellence

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

Integrity

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

Diversity

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

2013

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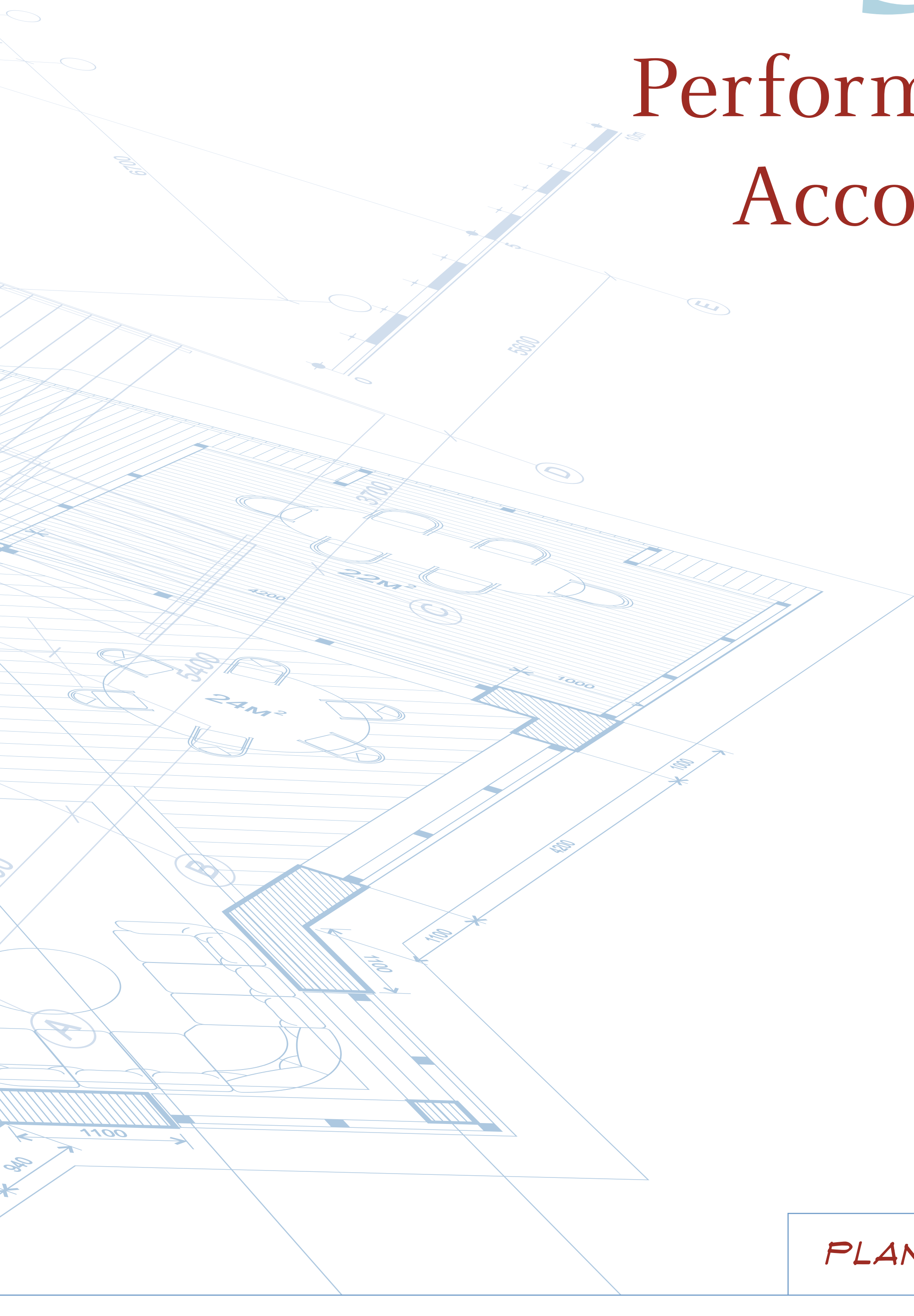

FEDERAL HOUSING FINANCE AGENCY
FHFA

PLANNING FOR THE FUTURE

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Did You Know?

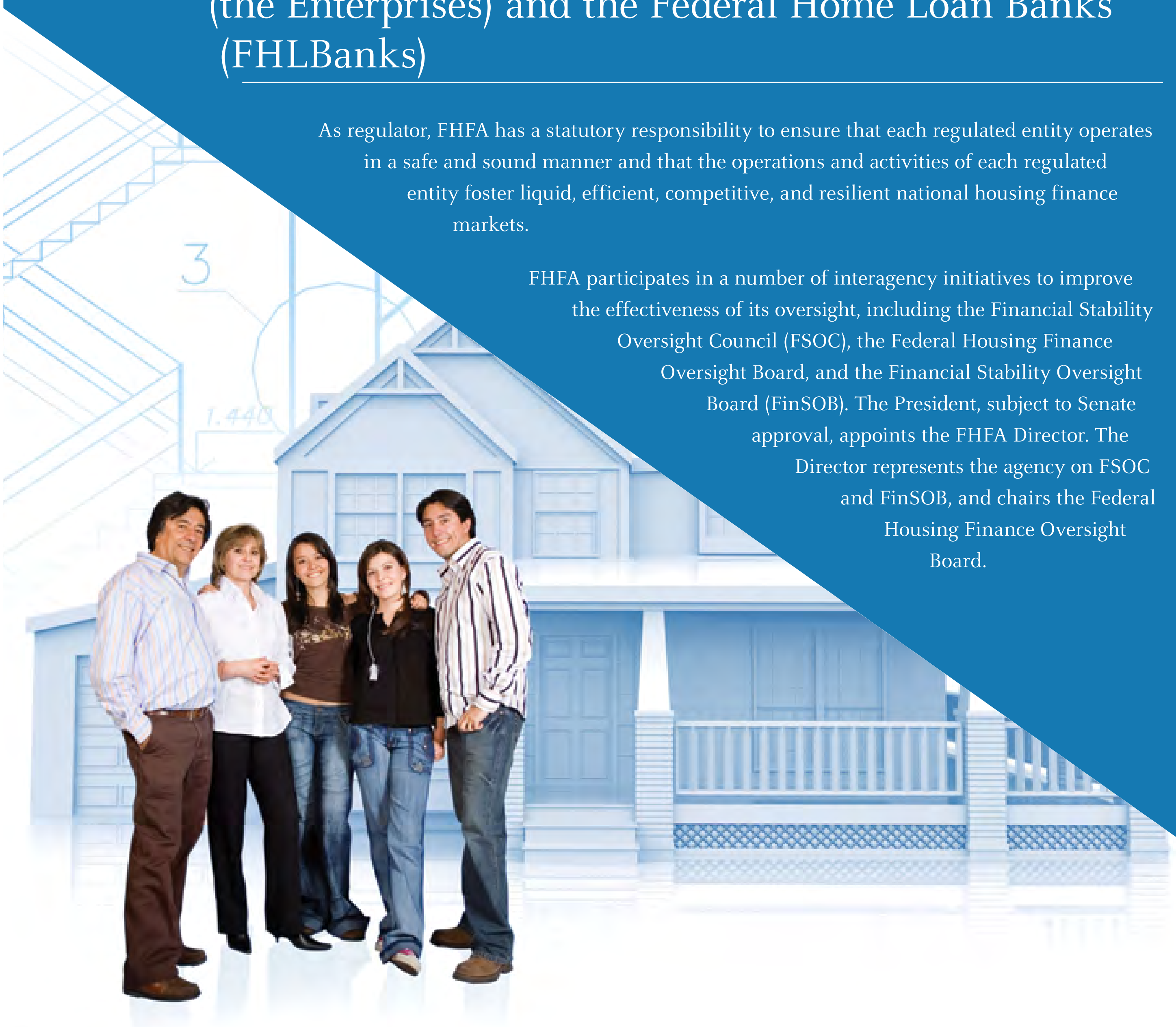
FHFA and the Housing Finance Market

The Federal Housing Finance Agency (FHFA) was created in July 2008 when the President signed the Housing and Economic Recovery Act of 2008 (HERA). HERA reformed the oversight of all the housing GSEs—Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (12 Federal Home Loan Banks and the Office of Finance)—by creating a single regulator with the powers and authorities to ensure that the GSEs operate in a safe and sound manner.

FHFA as Regulator of Fannie Mae, Freddie Mac, (the Enterprises) and the Federal Home Loan Banks (FHLBanks)

As regulator, FHFA has a statutory responsibility to ensure that each regulated entity operates in a safe and sound manner and that the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets.

FHFA participates in a number of interagency initiatives to improve the effectiveness of its oversight, including the Financial Stability Oversight Council (FSOC), the Federal Housing Finance Oversight Board, and the Financial Stability Oversight Board (FinSOB). The President, subject to Senate approval, appoints the FHFA Director. The Director represents the agency on FSOC and FinSOB, and chairs the Federal Housing Finance Oversight Board.



FHFA as Conservator of the Enterprises

On September 6, 2008, FHFA used its authorities to place the Enterprises into conservatorship. This was in response to a substantial deterioration in the housing markets that severely damaged the Enterprises' financial condition and left them unable to fulfill their mission without government intervention. A key component of the conservatorships is the commitment of the U.S. Department of the Treasury to provide financial support to the Enterprises to enable them to continue to provide liquidity and stability to the mortgage market. To date, the Treasury Department has provided $189.5 billion in support, which includes an initial placement of $1 billion at each Enterprise at the time of the conservatorships and an additional cumulative $187.5 billion investment from the Treasury Department. In accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 as amended by HERA, FHFA is authorized to "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."

In addition, as conservator, FHFA assumed the authority of the management and boards of the Enterprises during the period of the conservatorship. However, the Enterprises continue to operate legally as business corporations and FHFA has delegated to the chief executive officers and boards of directors responsibility for much of the day-to-day operations of the companies. The Enterprises must follow the laws and regulations governing financial disclosure, including the requirements of the Securities and Exchange Commission.

As corporate executives, the Enterprises' executive officers have legal responsibilities to use sound and prudent business judgment in their stewardship of the companies.

While FHFA has broad authority over the Enterprises, the focus of the conservatorships is not to manage every aspect of their operations. Instead, FHFA leadership reconstituted the Enterprises' boards of directors in 2008 and charged them with ensuring that normal corporate governance practices and procedures are in place. The boards are responsible for carrying out normal board functions, which are subject to FHFA review and approval on critical matters. This division of duties represents the most efficient structure for FHFA to carry out its responsibilities as conservator.

EDWARD J. DEMARCO

Message from the Acting Director

I am pleased to present the Federal Housing Finance Agency's (FHFA's) *FY 2013 Performance and Accountability Report*. FHFA is an independent agency with a unique mission responsible for providing oversight of the housing government-sponsored enterprises (GSEs or alternatively, 'the regulated entities'). The housing GSEs include Fannie Mae, Freddie Mac (known as the Enterprises), the Federal Home Loan Banks (FHLBanks) and the FHLBanks' joint Office of Finance. The focus of FHFA's mission is to promote their safety and soundness and ensure that the GSEs serve as a reliable source of liquidity and funding for housing finance and community investment.

This report describes some very significant accomplishments as well as major challenges that FHFA has faced in meeting its strategic goals and objectives during FY 2013. It also features the ongoing initiatives being pursued by the agency to ensure FHFA meets the strategic goals outlined in its strategic plan. FHFA's Strategic Plan consists of four strategic goals:

FHFA'S FY 2013 STRATEGIC GOALS	
1	Safe and Sound Housing GSEs
2	Stability, Liquidity, and Access in Housing Finance
3	Preserve and Conserve Enterprise Assets
4	Prepare for the Future of Housing Finance in the United States

The Enterprises

FHFA has made considerable progress in its role as conservator, supervisor, and regulator of the Enterprises.

The Enterprises' financial condition continues to improve. Both of the Enterprises reported positive earnings from October 1, 2012, through September 30, 2013. As of September 30, 2013, the Enterprises' cumulative draws under the Senior Preferred Stock Purchase agreements totaled $187.5 billion, and the Enterprises have paid $146.6 billion in cash dividends to Treasury.

In March 2013, we published the 2013 Conservatorship Scorecard, setting forth performance goals for the Enterprises in furtherance of the Conservatorship

Strategic Plan that we issued last year. The three strategic goals outlined in the *Strategic Plan for Enterprise Conservatorships* are:

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

I testified before Congress the week after publication of the scorecard, focusing on these goals and the progress made in achieving them (see Performance Highlights, page 29).

Under FHFA's direction, Fannie Mae and Freddie Mac together made important strides towards establishing the Common Securitization Platform (CSP). Since September, a joint venture responsible for developing the platform has been incorporated as Common Securitization Solutions (CSS), a limited liability company equally owned by Fannie Mae and Freddie Mac. Office space for CSS has been secured in Bethesda, Maryland and recruitment for a Chief Executive Officer and an independent chairman of the Board of Managers is underway. Significant housing finance reform legislation introduced this year in the House of Representatives, and a different bill introduced in the Senate, each rely upon the platform as a component of the securitization infrastructure of the future.

In furtherance of the strategic goal of gradually contracting the dominant presence of Fannie Mae and Freddie Mac in the secondary mortgage market, under FHFA's direction each Enterprise has executed significant transactions to share single-family mortgage credit risk with the private sector. In July 2013, Freddie Mac completed a credit risk transaction, known as the Structured Agency Credit Risk (STACR) transaction. Fannie Mae executed a similar transaction in October and Freddie Mac closed a second STACR transaction in November. In October, Fannie Mae completed a different type of credit risk transaction, a deeper mortgage insurance coverage transaction. Freddie Mac completed a reinsurance transaction in November. Shifting risk from taxpayers to private capital markets has been a major objective of the Conservatorship Strategic Plan. Together, each Enterprise met FHFA's scorecard target for $30 billion in risk-sharing transactions using multiple types of transactions. Both Enterprises have other planned transactions in various stages of development. These are the first of what I expect to become regular marketplace transactions to bring private capital in to support some portion of the mortgage credit risk being insured by the Enterprises.

The Enterprises have continued to offer programs that help troubled mortgage borrowers avoid foreclosure. Since the establishment of the conservatorships in September 2008 through August 2013, the Enterprises have completed 2.97 million foreclosure prevention actions. These actions have allowed more than 2.4 million troubled borrowers to stay in their homes. We also surpassed 1 million Home Affordable Refinance Program (HARP) refinances last calendar year, bringing the total number of HARP refinances since conservatorship through August 2013 to nearly 2.9 million. Taken together, the Enterprises have purchased 18 million refinance mortgages since the establishment of the conservatorship.

In the summer of 2011, FHFA filed 18 separate lawsuits pertaining to securities laws violations and negligent misrepresentation, among other complaints, against major financial institutions regarding private-label mortgage-backed securities purchased by Freddie Mac and Fannie Mae prior to the conservatorships. With these suits, FHFA is seeking compensation for taxpayers for losses incurred by the Enterprises that are the legal responsibility of these other parties. In recent months, FHFA has settled several of these suits, resulting in recoveries in excess of $5 billion. The largest of these settlements involved $885 million in recoveries from UBS Americas Incorporated and J.P. Morgan Chase & Company for $4 billion. At the same time, FHFA resolved matters outside of litigation. These initiatives fulfill a critical conservator responsibility and reduce the overall taxpayer losses associated with the conservatorships.

Federal Home Loan Banks

The financial condition of the FHLBanks is stronger than in recent years. All 12 FHLBanks were profitable during FY 2013, marking their third consecutive year of profitability. The FHLBanks continued to build their retained earnings in 2013. Capital-to-asset ratios are at or near historic highs, and retained earnings levels in relation to assets are also substantially higher than recent years. The FHLBanks had $798.4 billion in assets at the end of FY 2013. All 12 FHLBanks met the minimum total regulatory capital requirement of 4 percent of total assets. The FHLBanks' advances to members increased approximately $53 billion or 13 percent in FY 2013.

The FHLBanks helped to achieve their mission in FY 2013 by supporting the Affordable Housing Program (AHP), which is a source of funds to support local affordable housing initiatives. The FHLBanks provided $286.8 million in AHP funds in FY 2013.

Future Challenges

Despite the numerous successes during FY 2013, we still have significant challenges ahead of us. The single-family mortgage market remains heavily supported by taxpayers. While there is progress on the legislative front, the timing of broader housing finance reform remains uncertain. We will continue our efforts to implement the three broad goals of the *Strategic Plan for Enterprise Conservatorships*: Build, Contract, and Maintain.

Efforts to build a new infrastructure for the secondary mortgage market will continue. We must complete the development, testing, and deployment of the CSP. We need to make further progress in the development of a model Contractual and Disclosure Framework (CDF). Together, the CSP and CDF initiatives constitute our core efforts at building a new and improved infrastructure.

We have made a good start at reducing the footprint of the Enterprises in the mortgage market and we expect those efforts to continue in the coming year.

To maintain credit availability for refinanced mortgages, we are redoubling our efforts with a national outreach campaign designed to inform the public of the benefits of the HARP and encourage qualified borrowers to take advantage of the program. We want to improve public awareness of this important benefit to homeowners and taxpayers.

Program Data and Financial Performance

For the fifth consecutive year, FHFA has received an unmodified (clean) opinion on its financial statements from the U.S. Government Accountability Office (GAO). FHFA has no material internal control weaknesses, and our financial and performance data contained in this report are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136. FHFA met or exceeded 17 out of 25 (68 percent) of its performance targets for which fiscal year data was available. The agency did not meet seven (28 percent) of its targets. Performance information for one measure will be available in the second quarter of FY 2014 (see the Performance Section on page 79).

Conclusion

The accomplishments described in this report would not have been possible without the dedicated effort of everyone at FHFA. In July, the agency celebrated its fifth anniversary. Still a young and maturing agency, FHFA has built a solid foundation for its own future service to the country in housing finance oversight. While many challenges remain ahead as described in this report, FHFA is ready to meet those challenges to ensure a stable and liquid mortgage market for the benefit of homeowners and renters around the country while protecting the interests of taxpayers.

Long-term, continued operation in a government-run conservatorship is not sustainable for the Enterprises because each company lacks capital, cannot rebuild its capital base, and is operating on a remaining, finite line of capital from taxpayers. Until Congress determines the future of the Enterprises and the housing finance market, FHFA will continue to carry out its responsibilities to supervise and regulate the FHLBanks and Enterprises. It will also continue to implement the *Strategic Plan for Enterprise Conservatorships*.

Edward J. DeMarco
Acting Director
December 16, 2013

FHFA Public Benefits

The FHFA is an independent regulatory agency responsible for the oversight of the housing GSEs, including the Enterprises and the twelve FHLBanks. In addition to being the conservator for the Enterprises, FHFA is responsible for many important tasks that further the public interest. Included among these responsibilities are:

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

FHFA's mission is to ensure that the housing GSEs are operating in a safe and sound manner so that the GSEs can serve as a reliable source of liquidity and funding for housing finance and community investment. To ensure that the housing GSEs are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition. FHFA accomplishes this mission through on-site examinations and off-site monitoring of each of the housing GSEs.

Protecting Taxpayers and Stabilizing the Enterprises

Since September 6, 2008, FHFA has served as the conservator of Fannie Mae and Freddie Mac. As conservator, FHFA works to preserve and conserve each Enterprise's assets and property. To date, taxpayers have invested $189.5 billion in the Enterprises to keep them operational. FHFA focuses on improving the Enterprises' operational efficiency and effectiveness and restoring the Enterprises to a sound financial condition. FHFA also provides oversight of the Enterprises' foreclosure prevention programs. In addition, FHFA works to reduce the Enterprises' footprint in current mortgage finance markets by distributing risk to participants other than the U.S. Government and increasing the amount of private capital supporting the mortgage finance markets.

Representatives from FHFA's Division of Housing Mission and Goals, Office of Financial Analysis, Modeling & Simulations. FHFA photo.

Increasing Transparency in the Housing Finance Markets

FHFA actively promotes the dissemination of information that will improve the public's understanding of housing finance markets and thereby the efficiency of the market. FHFA publishes an indicator of single-family house price trends at various geographic levels called the House Price Index (HPI). The HPI can be used to estimate the current value of a house based on the appreciation rate of home values in an area (see HPI calculator at *www.fhfa.gov/DataTools/Tools/Pages/HPI-Calculator.aspx*). The HPI can also be used to estimate changes in mortgage defaults and prepayments which are highly dependent on the level and direction of housing prices. HPI data are available on a variety of geographic levels, including National, State, Census Division, and Metropolitan Statistical Areas. HPI data is also available on a monthly and quarterly basis. In addition to the HPI, FHFA works with the Enterprises to improve their loan-level disclosures for mortgage originations until securities created from packaged loans are extinguished. This will help market participants better understand and price risk associated with Enterprise MBS. Finally, FHFA periodically releases research papers on topics related to mortgage markets.

Preserving Homeownership

FHFA works with the Enterprises to provide several avenues for preserving homeownership including the Home Affordable Refinance Program (HARP) and the Home Affordable Modification Program (HAMP). Under HARP, homeowners with little or no equity in their homes whose mortgages are guaranteed by the Enterprises and who have continued to make timely monthly payments are allowed to refinance to take advantage of lower mortgage interest rates, thereby reducing their monthly payment. Under HAMP, delinquent homeowners are able to obtain a loan modification that can lower their monthly payment. FHFA works collaboratively with the Enterprises and other industry participants to increase access to HARP and HAMP for qualified borrowers. FHFA has completed over 2.9 million foreclosure prevention actions since the start of the conservatorships of the Enterprises. These actions have allowed approximately 2.4 million troubled borrowers to remain in their homes.

On September 23, 2013, FHFA launched a national education campaign to inform homeowners of the refinance opportunities available to them through HARP. The agency also launched the website *www.HARP.gov* as part of its outreach program.

Building a Better Secondary Mortgage Market for the Future

FHFA is pursuing a series of initiatives and strategies to improve the future system of housing finance. One important initiative is the creation of a new Common Securitization Platform (CSP) that will serve the dual purpose of modernizing the Enterprises' current outdated infrastructures and providing the potential for other market participants to use the same infrastructure. Under FHFA's direction, the Enterprises have made significant progress in developing the design, scope and functional requirements for the CSP's core modules—which will perform the data validation, security issuance, disclosure, master servicing, and bond administration functions—as well as transactional data stores, an integrated data store, and other components. Other initiatives include a model Contractual and Disclosure Framework, developing uniform standards for data reporting on mortgage loans and appraisals, and developing a new system for document custody and electronic registration of mortgage notes, titles, and liens.

How this Report Is Organized

This report highlights the agency's accomplishments in FY 2013 and in subsequent months prior to the publication of this report. It also describes the future challenges facing the agency. This report has five sections, namely:

Management's Discussion and Analysis

This section is an overview of the entire *Performance and Accountability Report*. It briefly describes FHFA's mission and organization, performance highlights, management challenges, and key performance measures. It also gives a financial overview and management assurances of internal controls.

Performance

This section identifies FHFA's strategic goals and describes the fiscal year performance relative to the goals and measures set forth in the agency's Annual Performance Plan.

Financial

This section includes a Message from the Chief Financial Officer, the independent auditor's report, Appendix I: Management's Report on Internal Control over Financial Reporting, Appendix II: FHFA Response to Auditor's Report, FHFA's Financial Statements, and Notes to the Financial Statements.

Other Information

This section includes performance goals and measures no longer reported, the Inspector General's primary management and performance challenges and the Summary of Financial Statements Audit and Management Assurances.

Appendix

The appendix includes a glossary, a list of abbreviations and acronyms used in the report, acknowledgements, and an index of figures and features.

Management's Discussion and Analysis

- FY 2013 Strategic Goals, Performance Goals, and Measures
- Alignment of Resource Allocation with Strategic Goals
- FY 2013 Profile
- Organization
- Meet the Housing Government-Sponsored Enterprises
- Performance Highlights by Strategic Goal
- Management Challenges
- FY 2013 Performance Summary
- Overview of FHFA's Eight Key Performance Measures
- Program Evaluations
- Analysis of Financial Statements
- Analysis of Systems, Controls and Legal Compliance
- Management's Report on Final Actions
- FHFA's Statement of Assurance

FY 2013 Strategic Goals, Performance Goals, and Measures

STRATEGIC GOAL 1: Safe and Sound Housing GSEs		
1.1	**Identify risks and require timely remediation of weaknesses**	
	1.1.1a	Develop a written supervisory strategy for each regulated entity that effectively identifies risks and ensures corrective actions are implemented.
	1.1.1b	Develop a written supervisory strategy for each regulated entity that effectively identifies risks and ensures corrective actions are implemented.
	1.1.2	Percentage of examination findings remediated since the last exam or in accordance with an approved remediation plan.
1.2	**Improve the condition of the regulated entities**	
	1.2.1	Complete guidance on the implementation of the asset classification policy (2012-AB-02, April 9, 2012) and ensure regulated entities establish implementation plans.
	1.2.2	Develop five new examination modules to guide examiners in reviewing and assessing the regulated entities.
	1.2.3	Conduct supervisory review of Enterprise compliance processes for tracking and executing conservatorship directives.
	1.2.4	Increased retained earnings for each FHLBank.
STRATEGIC GOAL 2: Stability, Liquidity, and Access in Housing Finance		
2.1	**Promote stability and mitigate systemic risk that could lead to market instability**	
	2.1.1	Number of refinances successfully completed through Home Affordable Refinance Program (HARP) 2.0.
	2.1.2	Number of foreclosure alternatives successfully completed.
	2.1.3	Number of real estate owned (REO) dispositions in individual markets to promote recovery via existing and new distribution channels.
2.2	**Ensure liquidity in mortgage markets**	
	2.2.1	Initiate the monthly mortgage market survey.
	2.2.2	Inform the public through dissemination of FHFA research publications on housing and housing finance markets.
2.3	**Expand access to housing finance for diverse financial institutions and qualified borrowers**	
	2.3.1	Reduce variance in single-family guarantee fees charged to lenders that sell large versus small volumes of mortgages to the Enterprises.
	2.3.2	Increase number/dollar amount of awards to women and minority owned businesses by FHFA.
	2.3.3	Increase number/dollar amount of business awarded to women and minority owners by the entities FHFA regulates.
STRATEGIC GOAL 3: Preserve and Conserve Enterprise Assets		
3.1	**Minimize taxpayer losses during the Enterprises' conservatorships**	
	3.1.1	Reduce cross-subsidization in Enterprise single-family guarantee fees.
	3.1.2	Undertake and defend legal actions that recover upon losses or seek to avoid liability to the GSEs.
	3.1.3	Reduce the amount of current outstanding repurchases.
	3.1.4	Reduce the annual percentage of manufacturing defects at loan origination.
	3.1.5	Reduce the annual net of operational loss events.

STRATEGIC GOAL 4: Prepare for the Future of Housing Finance in the United States	
4.1	**Build a new infrastructure for the secondary mortgage market**
4.1.1	Publish a White Paper soliciting public input on a common securitization platform and model pooling and servicing agreement.
4.1.2	Finalize plan(s) for the securitization platform and pooling and servicing agreement.
4.2	**Establish standards that promote a safer and more efficient housing finance system**
4.2.1	Work with the industry to develop servicing data standards and agree on a timetable for data collection.
4.2.2	Announce, via the Enterprises, selling and servicing policies in support of the Contract Harmonization Project.
4.3	**Contract Enterprise operations**
4.3.1	Increase the average national ongoing guarantee fee.
4.3.2	Reduction in retained portfolio consistent with the Preferred Stock Purchase Agreement.

Alignment of Resource Allocation with Strategic Goals

Pursuant to the Housing and Economic Recovery Act of 2008 (HERA), FHFA supervises and regulates the 14 regulated entities: Freddie Mac, Fannie Mae and the 12 FHLBanks. FHFA tracks resource allocations and program costs to the strategic goals developed for FHFA's strategic plan. FHFA adopted a new strategic plan in FY 2013 that contains four strategic goals, whereas the prior strategic plan had three strategic goals:

- Strategic Goal 1 is to ensure that the housing GSEs operate in a safe and sound manner.
- Strategic Goal 2 is to ensure the stability, liquidity, and accessibility of the housing market.
- Strategic Goal 3 is to preserve and conserve enterprise assets in order to minimize taxpayer losses during the conservatorships of the Enterprises.
- Strategic Goal 4 is to prepare for the future of housing finance in the U.S. through the creation of a new secondary mortgage market infrastructure.

FHFA also carries out work under its Resource Management Strategy and distributes these resources proportionately among the different strategic goals based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA-OIG costs are allocated under FHFA's Resource Management Strategy.

Strategic Goal 1 is the only goal that reflects the same activities in both FY 2012 and FY 2013.

The activities reported for the remaining strategic goals differ from fiscal year 2012 to 2013.

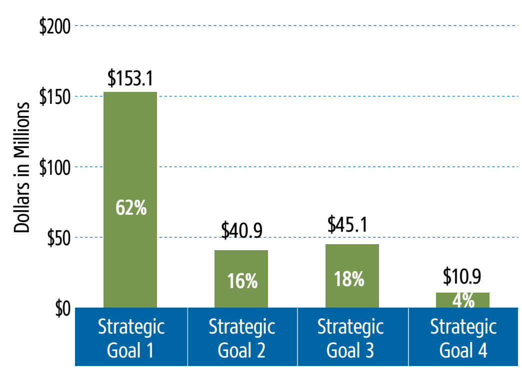
- FY 2012 activities under Strategic Goal 2 are now allocated, in FY 2013, between Strategic Goals 2 and 4.
- FY 2012 activities under Strategic Goal 3 are now allocated in FY 2013 between Strategic Goals 3 and 4.

Therefore, the actual costs expended and FTEs working on each strategic goal are only shown for FY 2013.

Strategic Goal 4 is a new mission goal that was adopted in FY 2013 consistent with the *Strategic Plan for Enterprise Conservatorships* (SPEC), which FHFA presented to Congress in February 2012. The SPEC outlines how FHFA will work with the Enterprises to prepare for the future of housing finance by building a new securitization infrastructure, gradually contracting the Enterprises' footprint in the marketplace, and maintaining market liquidity and borrower assistance efforts.

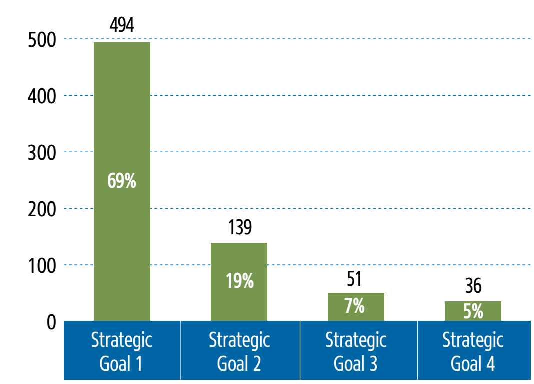
Bigstock.com photo.

FIGURE 1: Gross Costs FY 2013 *(Dollars in Millions)*



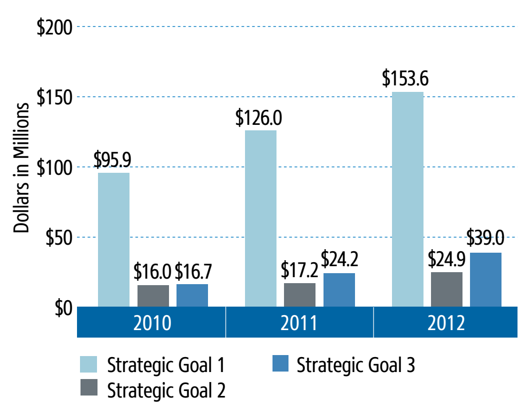
Note: Strategic Goal 4 is a new goal for FY 2013.

FIGURE 3: Actual Full-Time Equivalent - FY 2013



Note: Strategic Goal 4 is a new goal for FY 2013.

FIGURE 2: Gross Costs FY 2010–2012 *(Dollars in Millions)*



Note: Strategic Goal 4 is a new goal for FY 2013.

FIGURE 4: Actual Full-Time Equivalent - FY 2010–2012

Note: Full-time equivalent (FTE) is calculated as the total number of hours worked (or to be worked) divided by the number of compensable hours in each fiscal year.

FY 2013 Profile

- FHFA conducts safety and soundness supervision of the operations of the housing-related GSEs and manages the conservatorships of the Enterprises. The agency uses examiners, economists, accountants, and financial and policy analysts to fulfill its responsibilities.
- During each calendar year (CY), FHFA completes examinations of Fannie Mae, Freddie Mac, each of the 12 FHLBanks, and the Office of Finance. It presents reports of examination to the respective boards of directors of each entity. However, the scheduling of examination fieldwork and reviews of examination reports may vary from year to year. Results of the examinations are reported to Congress by June of the following year. In June 2013, FHFA released its fifth annual *Report to Congress* and deemed both Fannie Mae and Freddie Mac "critical concerns," but noted they each generated positive annual income for the first time since 2006. The most recent report to Congress is available at *www.fhfa.gov/AboutUs/Reports/Pages/FHFA-2012-Annual-Report-to-Congress.aspx.*
- As conservator of the Enterprises, FHFA settled major claims to be paid to the Enterprises during FY 2013. In addition to repurchase claims against sellers of mortgages to the Enterprises, FHFA has pursued 18 lawsuits against major financial institutions regarding private-label mortgage-back securities (PLMBS) purchased by the Enterprises. In January 2013, Bank of America settled with Fannie Mae for $10.3 billion. In March 2013, Citigroup settled with the Enterprises for $3.5 billion over alleged PLMBS misrepresentations, and finally in July 2013, FHFA reached a settlement with UBS for $885 million over PLMBS sales to the Enterprises.
- FHFA ensured that the Enterprises took preemptive action in providing emergency relief to homeowners dealing with natural disasters. For borrowers affected by Hurricane Sandy, the Enterprises offered 90 days payment relief to borrowers and suspended foreclosure proceedings against these distressed homeowners.
- FHFA announced a new standardized examination rating system for the housing GSEs in December 2012. FHFA had previously applied different examination rating systems for the Enterprises and the FHLBanks. Effective January 2013, each regulated entity is now assigned a common composite rating based on Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk (CAMELSO).
- FHFA handled 74 congressional inquiries, 1,321 non-consumer general public inquiries, and 1,947 consumer inquiries in FY 2013.
- The formal congressional inquiries dealt with housing policy questions, programmatic issues as the conservator of the Enterprises, questions regarding the current state and the future of the GSEs, and individual constituent issues from members' offices. This number does not include the informal e-mail and phone inquiries from staff that Congressional Affairs address every day.
- FHFA worked with the Enterprises to complete foreclosure prevention actions, which helped 478,300 homeowners avoid foreclosure from October 2012 to September 2013. These actions are intended to assist homeowners whose mortgages are distressed or in danger of becoming distressed to maintain their homes or leave their homes without going through the foreclosure process. HARP was established as a pre-distressed action to enable homeowners to refinance their mortgages and lower their monthly payments. From October 2012 to August 2013, nearly 1.1 million mortgages were refinanced through HARP.

- FHFA ended the year with 597 employees. FHFA has budgeted for 614 positions by the end of FY 2014.
- FHFA's budget for FY 2013 was $197.4 million (excluding the Office of Inspector General); the agency's FY 2014 budget is $199.5 million.

FIGURE 5: FHFA's Workforce By Specialized Area

FHFA Positions *(by specialized area)*	FY 2013 Year End	FY 2014 Budgeted
Examinations	273	283
Other Mission	134	140
Office of the Director	28	30
Legal	41	42
Information Technology	51	51
Infrastructure	70	68
Total FHFA	**597**	**614**
TOTAL FHFA - OIG	**140**	**150**

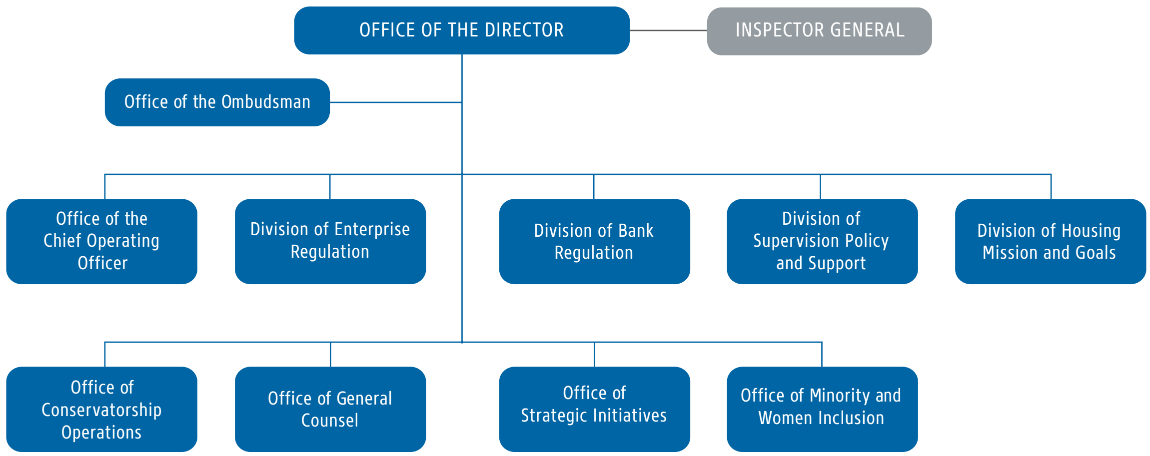
Year-end positions can differ from budgeted positions as needs and priorities may change over the course of the fiscal year.

Organization

FHFA is an independent government agency with a workforce that includes highly skilled examiners, economists, financial and policy analysts, attorneys, and subject matter experts in banking, insurance, technology, accounting, and legal matters. The Acting Director sets the direction for the agency to achieve its mission with core divisions and offices working together to ensure effective execution of the agency's mission (see Figure 6).

Representatives of the Division of Housing Mission and Goals, Office of Policy Analysis and Research. FHFA photo.

FIGURE 6: FHFA Principal Organization Units



The Office of Inspector General (OIG) is responsible for conducting independent objective audits, evaluations, investigations, surveys, and risk assessments of FHFA's programs and operations. 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. Established by HERA in 2008, the office commenced operation in October 2010.

The Office of Ombudsman is responsible for considering complaints and appeals from any regulated entity, the Office of Finance, or any person who has a business relationship with a regulated entity or the Office of Finance concerning any matter relating to FHFA's regulation and supervision. Neither FHFA nor any of its employees may retaliate against a regulated entity, the Office of Finance, or a person for submitting a complaint or appeal to the Ombudsman. Created by regulation under HERA, the office commenced operation in March 2011.

The Office of Chief Operating Officer oversees the agency's day-to-day operations that include facilities management, contingency planning, continuity of operations, financial and strategic planning and budgeting, contracting, hiring and human resources management, information technology, quality assurance, internal and external communications, and coordination with the FHFA Office of Inspector General. The office leads reporting on strategic planning and accountability, and develops recommendations for long-term improvements in agency operations.

The Division of Enterprise Regulation (DER) is responsible for the supervision of the Enterprises to ensure their safe and sound operation. This office provides management oversight, direction, and support for all examination activity involving the Enterprises, the development of supervision findings, and preparation of the annual reports of examination. The division monitors and assesses the financial condition and performance of the Enterprises and their compliance with regulations through annual on-site examinations and periodic visits. An examiner-in-charge leads examination activity at each Enterprise.

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

The Division of Supervision Policy and Support is responsible for monitoring the regulated entities for emerging risks in housing and financial markets and key counterparties. The division is also responsible for working with other federal financial regulators on identifying and assessing emerging risks. The division also helps identify and assess regulatory best practices, emerging risks, and supervision priorities. It collaborates with DER and DBR to incorporate this information into FHFA's supervisory program.

The Division of Housing Mission and Goals is responsible for FHFA policy development and analysis, oversight of housing and regulatory policy, oversight of the mission and goals of the Enterprises, and the housing finance and community and economic development mission of the FHLBanks. In support of FHFA's mission and the Director's responsibilities as a member of the Federal Housing Finance Oversight Board, the Financial Stability Oversight Board, and the Financial Stability Oversight Council, the division also oversees and coordinates FHFA activities. Such activities involve data analyses, market surveillance, systemic risk monitoring, and analysis affecting housing finance and financial markets.

The Office of Conservatorship Operations assists the FHFA Director, as conservator, in preserving and conserving the Enterprises' assets and property. The office facilitates communications between the Enterprises and the conservator to ensure the prompt identification of emerging issues and their timely resolution. The office also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorship.

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

The Office of Strategic Initiatives leads, coordinates, and clarifies agency and Enterprise activities related to FHFA's *A Strategic Plan for Enterprise Conservatorships* (SPEC) to achieve the objectives set forth therein. It tracks FHFA activities involving engagement with the Enterprises on a limited set of projects associated with the strategic plan. The office promotes consistency between FHFA and the Enterprises with regard to priorities and timelines and ensures that projects achieve their objectives in a timely and efficient manner.

The Office of Minority and Women Inclusion (OMWI) is responsible for all matters of diversity in employment, management, and business activities at FHFA as well as programs to monitor minority and women inclusion at the regulated entities. OMWI ensures that FHFA is compliant with Equal Employment Opportunity laws and regulations, and protects against illegal workplace discrimination. OMWI ensures that minorities, women, service-disabled veterans, and persons with disabilities are fully included in all job and business opportunities created as a part of the Federal Government's efforts to reform and strengthen the banking system and the financial services industry.

Meet the Housing Government-Sponsored Enterprises

Fannie Mae and Freddie Mac (the Enterprises)

Fannie Mae and Freddie Mac were created by Congress to provide stability and liquidity in the secondary market for home mortgages. The Enterprises purchase mortgages that lenders have already made to homeowners. These mortgages are guaranteed by the Enterprise, pooled into mortgage-backed securities (MBS), and either sold to investors or kept by the Enterprise as an investment (see Figure 7).

Since 2008, the Enterprises have operated under FHFA conservatorship. The U.S. Department of the Treasury supports the Enterprises through Senior Preferred Stock Purchase Agreements, which ensure each Enterprise maintains a positive net worth. The agreements require a 15 percent reduction in the Enterprises' retained portfolios each year. At the inception of the conservatorships, FHFA made clear that the Enterprises would continue to be responsible for normal business activities and day-to-day operations. FHFA exercises oversight as safety and soundness regulator while serving a more active role as conservator. However, the Enterprises cannot stay in conservatorship permanently, and FHFA is taking a number of steps towards this eventuality.

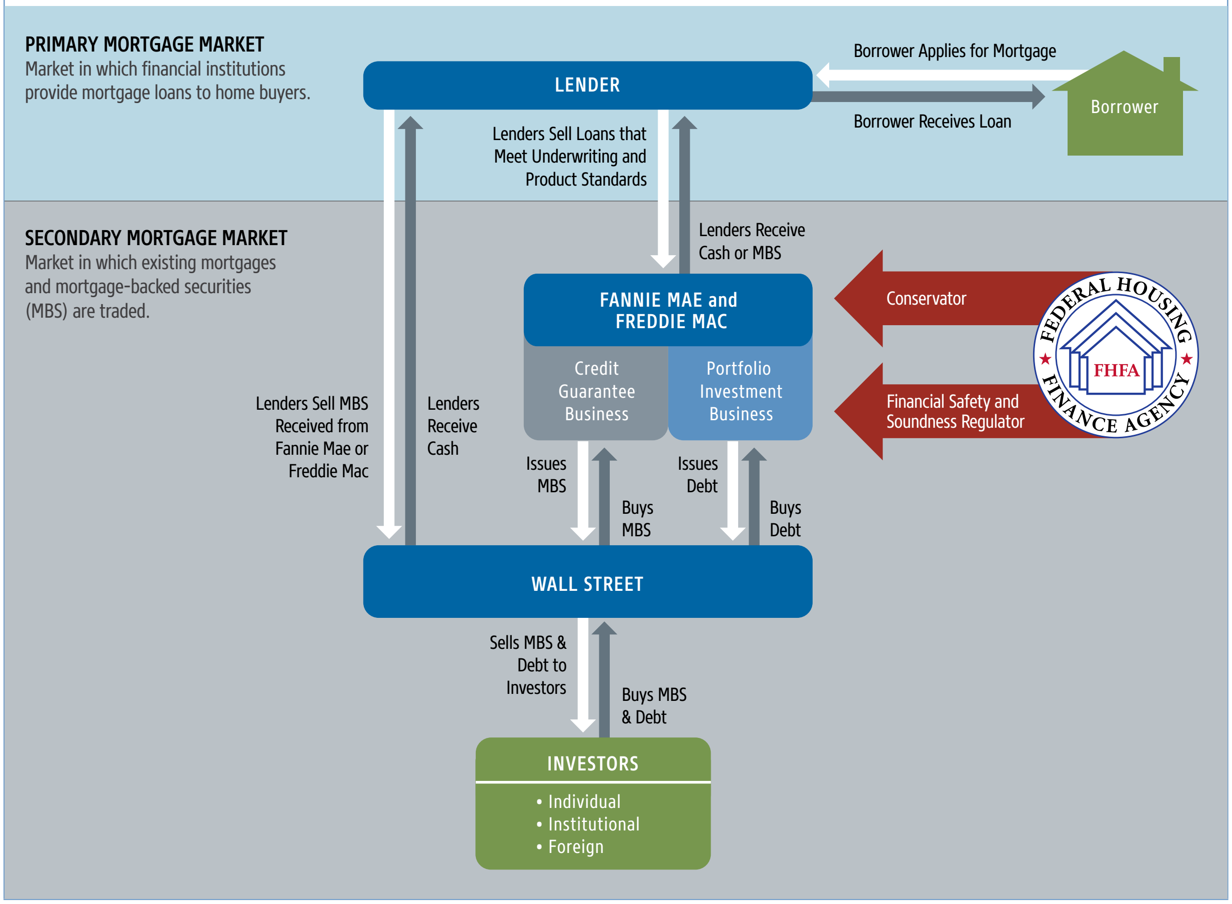
An important element is the progress FHFA continues to make on implementing the SPEC that was released in 2012 to address the agency's obligations as conservator. The SPEC has three components: build, contract, and maintain. FHFA has made great progress on the "build" component, which involves building a new mortgage securitization infrastructure.

The "contract" component is designed to reduce the Enterprises' market presence and increase opportunities in the private sector for absorbing credit risk in the mortgage market. Major progress was made in FY 2013 on risk sharing transactions and will continue throughout FY 2014.

The "maintain" component provides foreclosure prevention assistance to borrowers and mitigates the credit losses from the legacy book of business. The Enterprises continue to make improvements to their borrower assistance programs.

The management challenges and performance highlights sections of this report detail more about the components of the SPEC on **pages 43 and 47**.

FIGURE 7: FHFA Oversight Role – Fannie Mae and Freddie Mac



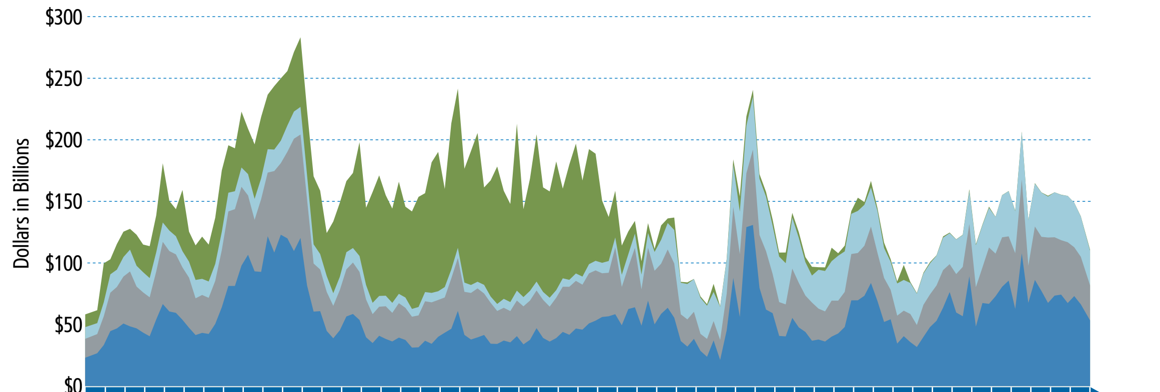
Conservatorship has stabilized the Enterprises and supported the continued functioning of the secondary mortgage market. At the end of September 2013, the Enterprises owned or guaranteed approximately $5.1 trillion of mortgages consisting of nearly $1.0 trillion in mortgages and MBS held in the Enterprises' investment portfolios and roughly $4.0 trillion in MBS held by investors other than the Enterprises.

The Enterprises have been responsible for issuing the majority of all MBS to the market since 2008, when, as a result of the financial crisis, the private sector virtually withdrew from the market. During the third quarter of 2013, for example, the share of total MBS issued by the Enterprises stood at 76 percent.

When combined with the Government National Mortgage Corporation (Ginnie Mae), which issued just under 24 percent of total MBS, the government-supported sector accounted for virtually all MBS issuance (see Figure 8).

The Enterprises have received substantial support from the Federal Government while in conservatorship. Through the purchase of Senior Preferred Stock, the Treasury Department has provided $187.5 billion to the Enterprises—$116.1 billion to Fannie Mae and $71.3 billion to Freddie Mac. Since the second quarter of 2012, neither Enterprise has needed additional funding from the Treasury Department.

FIGURE 8: Enterprises' Market Share – MBS Issuance Volume



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 Q1	2013 Q2	2013 Q3
Fannie Mae	39%	39%	44%	28%	22%	22%	33%	44%	45%	43%	48%	50%	48%	46%	49%
Freddie Mac	29%	29%	26%	19%	18%	18%	25%	29%	27%	27%	25%	27%	29%	30%	27%
Enterprises	68%	68%	70%	47%	40%	40%	58%	73%	72%	70%	73%	77%	77%	76%	76%
Ginnie Mae	13%	9%	8%	7%	4%	4%	5%	22%	25%	26%	25%	23%	22%	24%	24%
Total	81%	77%	78%	54%	44%	44%	63%	95%	97%	96%	98%	100%	99%	100%	100%

■ Private-Label ■ Ginnie Mae ■ Freddie Mac ■ Fannie Mae

Sources: Inside Mortgage Finance, Enterprise Monthly Volume Summaries.
Issuance figures exclude MBS issued backed by assets previously held in the Enterprises' portfolios.

Fast Facts – The Enterprises

TOTAL NEW BUSINESS (Trillions)			SEPT 2011	SEPT 2012	SEPT 2013
			$1.28	$1.47	$1.71
TOTAL ENTERPRISE HARP REFINANCES			OCT 2010–SEPT 2011	OCT 2011–SEPT 2012	OCT 2012–8/1/2013*
			485,387	879,658	1,019,286
			Historic data was revised to include 2nd home and investment properties		
30 YEARS MORTGAGE RATE **			SEPT 2011	SEPT 2012	SEP 2013
			4.11%	3.47%	4.49%
			SEPT 2011	SEPT 2012	AUG 2013
DELINQUENCY RATES	**SINGLE FAMILY**	Fannie	4.00%	3.41%	2.61%
		Freddie	3.51%	3.37%	2.64%
	MULTI-FAMILY	Fannie	0.57%	0.28%	0.18%
		Freddie	0.33%	0.27%	0.05%
RETAINED MORTGAGE PORTFOLIO (Trillions)			SEPT 2011	SEPT 2012	SEPT 2013
			$1.40	$1.22	$1.01
TOTAL MBS OUTSTANDING (Trillions)			SEPT 2011	SEPT 2012	SEPT 2013
			$3.90	$3.94	$4.08

*September 2013 refi data not available.
** Average interest rate on a 30 year mortgage.
Source: Freddie Mac's Primary Mortgage Survey.

Federal Home Loan Banks

Congress passed the *Federal Home Loan Bank Act* in 1932 to establish the Federal Home Loan Bank System and reinvigorate a housing market devastated by the Great Depression.

The System includes 12 district banks, each serving a designated geographic area of the United States, and the Office of Finance, which issues consolidated obligations to fund the banks.

The FHLBanks are member-owned cooperatives and provide a reliable source of liquidity to member financial institutions. At the end of FY 2013, there were 7,541 FHLBank members, which included:

- 948 thrifts;
- 5,096 commercial banks;
- 1,200 credit unions;
- 279 insurance companies; and
- 18 community development financial institutions.

As of September 30, 2013, with total assets of $789 billion, the FHLBank System represents one of the largest banking structures in the country. Few bank holding companies—Citigroup, JP Morgan Chase, Bank of America, Wells Fargo, Goldman Sachs, and Morgan Stanley—are larger.

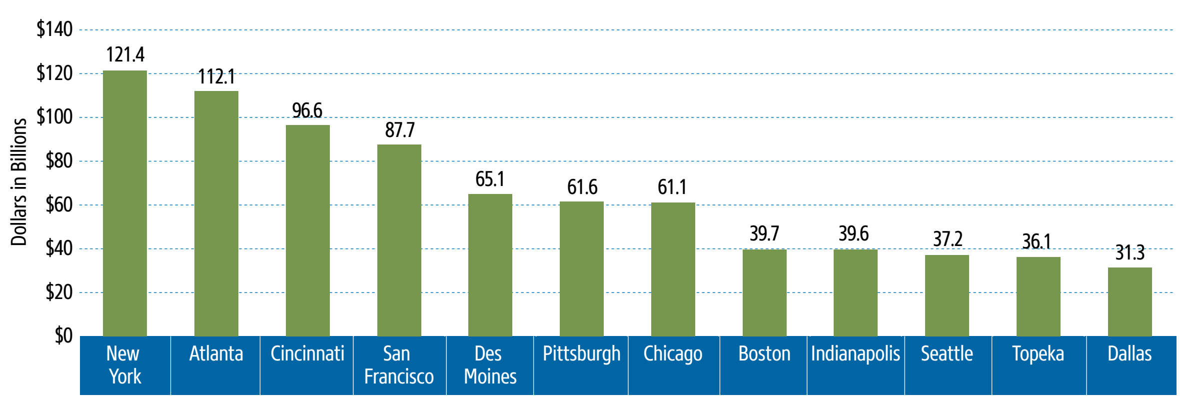
The FHLBank of New York, with assets of $121.4 billion, is the largest FHLBank, and the FHLBank of Atlanta, with assets of $112.1 billion, is the second largest. The FHLBank of Dallas is the smallest in the System at $31.3 billion in assets, followed by Topeka, at $36.1 billion in assets as of September 30, 2013 (see Figure 9).

FHLBanks make loans, known as advances, to member institutions and housing associates, such as state housing agencies. Those loans are underwritten based on the borrower's ability to repay and are collateralized by whole mortgage loans, securities, and other real estate related collateral (see Figure 10). Advances are the largest category of FHLBank assets and no FHLBank has ever incurred a credit loss on an advance to a member. FHLBank advances and other credit-related products increase the availability of credit for residential mortgages and community investment.

In order to become a member institution of an FHLBank or to obtain an advance, an institution purchases capital stock in that bank. Only member institutions can purchase the capital stock in an FHLBank, and, with the exception of certain housing associates, only member institutions can borrow from an FHLBank.

Membership is limited to regulated depository institutions (banks, thrifts, and credit unions), insurance companies, and community development financial institutions engaged in residential housing finance. Some 57 percent of members are borrowers

FIGURE 9: Total Assets of the FHLBanks at September 30, 2013



(see Figure 11). Each FHLBank district comprises whole contiguous states, including the District of Columbia and U.S. territories (see Figure 12).

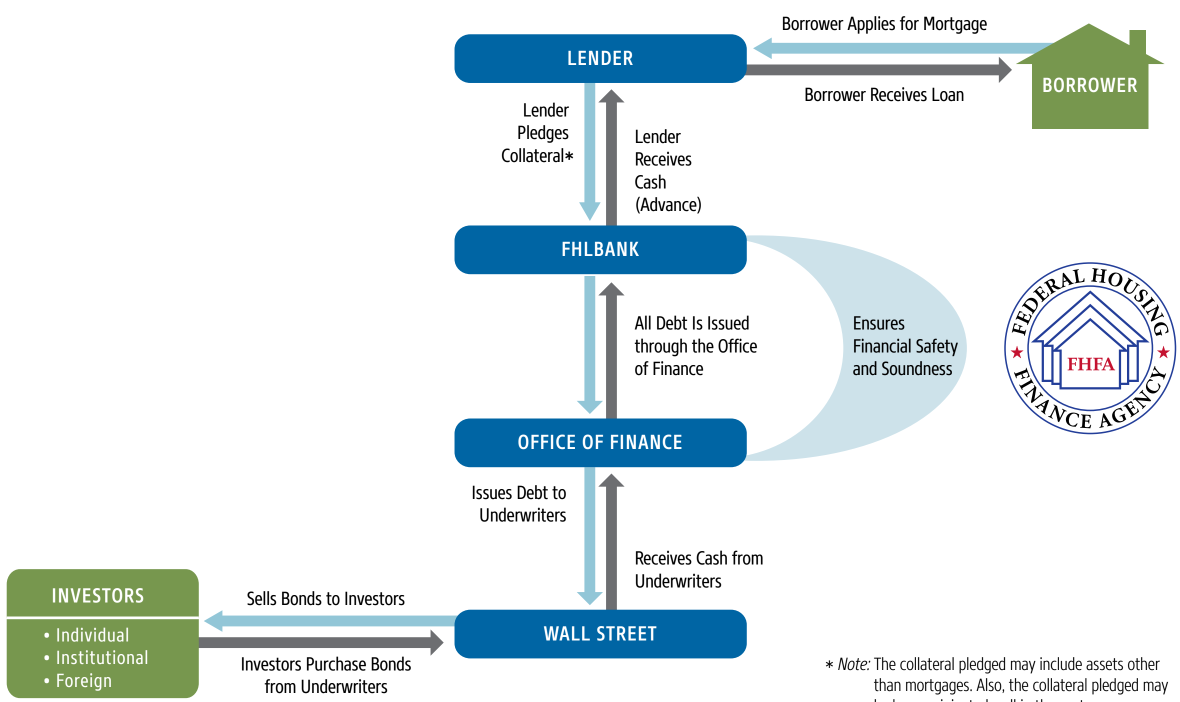
In addition to advances, the FHLBanks offer members letters of credit, correspondent banking (which includes security safekeeping, wire transfers, and settlements), cash management services, and derivative intermediation. Some FHLBanks have acquired member assets programs to purchase mortgages from their members. The volume of loan purchases is low relative to advances, and acquired member asset balances have generally declined since 2004.

The FHLBanks also offer their members several housing and community investment programs, such as the Affordable Housing Program. Members receive a subsidy from an FHLBank used typically in conjunction with an affordable housing sponsor for the purchase, construction, or rehabilitation of housing for low- and moderate-income households.

The Affordable Housing Program supports both multifamily rental properties and single-family home ownership projects. Each FHLBank must contribute the greater of 10 percent of its net income or an aggregate $100 million to fund the Affordable Housing Program. Since 1990, the FHLBanks have contributed $4.5 billion in subsidy to this program as of September 30, 2013.

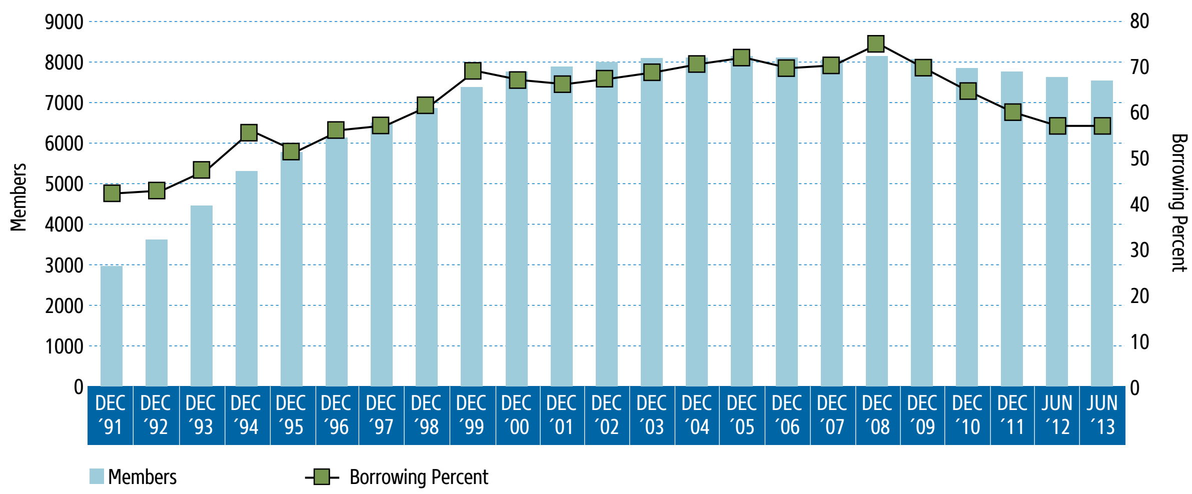
Finally, the FHLBank System also issues debt securities in the domestic and international capital markets through the Office of Finance at interest rates lower than those available to private sector debt issuers. Capital raised through these securities is then used to make advances to members, which in turn can pass along the FHLBanks' funding advantage when making loans to their customers. In June 2013, Standard and Poors—a ratings agency—revised its outlook of the debt issues of the FHLBank System (and 11 of the 12 FHLBanks) from negative to stable.

FIGURE 10: FHFA Oversight Role – FHLBanks



* *Note:* The collateral pledged may include assets other than mortgages. Also, the collateral pledged may be loans originated well in the past.

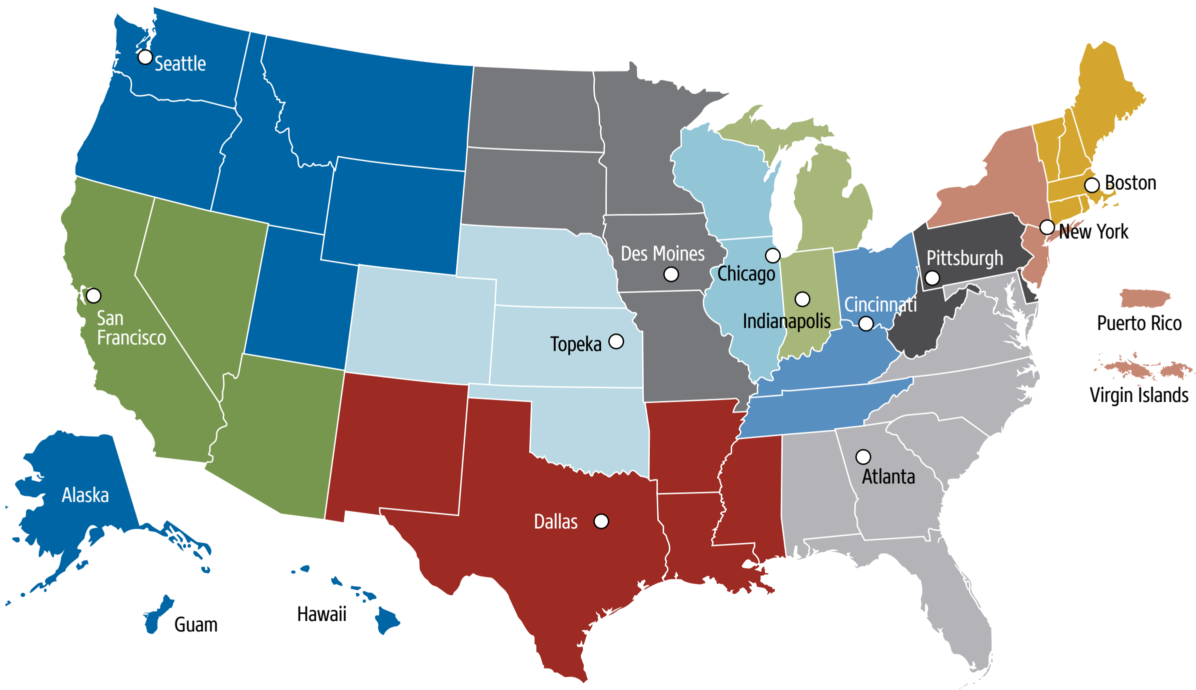
FIGURE 11: Number of FHLBank Members and Percent of Members That Borrow



Fast Facts – FHLBanks

COOPERATIVES	Each Federal Home Loan Bank (FHLBank) is a cooperative owned by its members.
MEMBERS	There are 7,541 FHLBank members. Generally, only members and housing finance agencies can borrow from an FHLBank.
INSURANCE COMPANIES	297 insurance companies are members and account for 12 percent of advances outstanding.
ADVANCES	The largest asset class is advances and accounts for 59 percent of assets.
NEW MORTGAGES	In the 12 months ending September 30, 2013, the FHLBanks acquired $8.2 billion of new mortgage loans while $12.6 billion was paid off.
FUNDING	The FHLBanks fund themselves by issuing discount notes and bonds in the capital markets.
JOINT-AND-SEVERAL LIABILITY	The FHLBanks are jointly and severally liable for each other's debt, meaning that if one FHLBank faced several difficulties the other FHLBanks would have to make good on the discount notes and bonds attributable to that FHLBank.
CAPITAL	The regulatory capital-to-assets ratio is 6.3 percent, well above the 4.0 percent requirement. All FHLBanks have a capital ratio of 5.1 percent or more.
EARNINGS	The FHLBanks as a group have been profitable in every quarter since the fourth quarter of 2009, and every FHLBank has been profitable in every quarter since the fourth quarter of 2011.

FIGURE 12: Federal Home Loan Bank Districts



ATLANTA	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia
BOSTON	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
CHICAGO	Illinois, Wisconsin
CINCINNATI	Kentucky, Ohio, Tennessee
DALLAS	Arkansas, Louisiana, Mississippi, New Mexico, Texas
DES MOINES	Iowa, Minnesota, Missouri, North Dakota, South Dakota
INDIANAPOLIS	Indiana, Michigan
NEW YORK	New Jersey, New York, Puerto Rico, Virgin Islands
PITTSBURGH	Delaware, Pennsylvania, West Virginia
SAN FRANCISCO	Arizona, California, Nevada
SEATTLE	Alaska, Guam, Hawaii, Idaho, Montana, Oregon, Utah, Washington, Wyoming
TOPEKA	Colorado, Kansas, Nebraska, Oklahoma

Performance Highlights by Strategic Goal

STRATEGIC GOAL 1 | **Safe and Sound Housing GSEs**

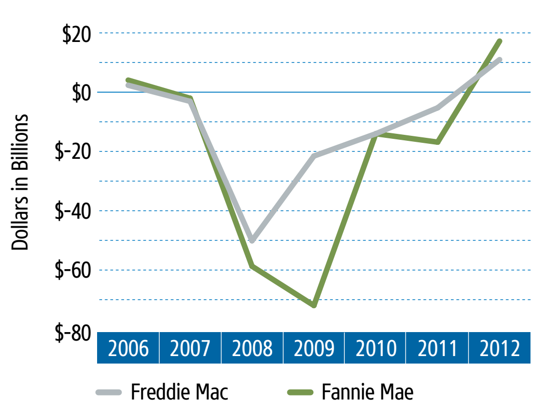
Completed 2012 Examinations of the Enterprises and FHLBanks and Reported Summaries to Congress

FHFA released its 2012 annual *Report to Congress* in June 2013. The report contains the results and conclusions of the annual examinations of the Enterprises and the FHLBanks. In its fifth annual *Report to Congress*, FHFA highlighted the following:

Report of Examinations of the Enterprises

The overall ratings for both Enterprises did not change from 2011 to 2012. FHFA deemed both Fannie Mae and Freddie Mac "critical concerns" in 2012 but noted they each generated positive annual income for the first time since 2006. The most significant risks facing Fannie Mae are credit risk and operational risk, particularly the dependence on legacy systems, and the need to implement a number of FHFA initiatives and regulations.

FIGURE 13: Enterprises Net Income *(Dollars in Billions)*



Freddie Mac's risk profile also remains high because of the difficulty in maintaining a sound control structure and effective risk management framework in a rapidly changing and complex operating environment. The management and the boards at both Enterprises were responsive throughout 2012 to FHFA findings. They continue to take appropriate steps to resolve identified issues.

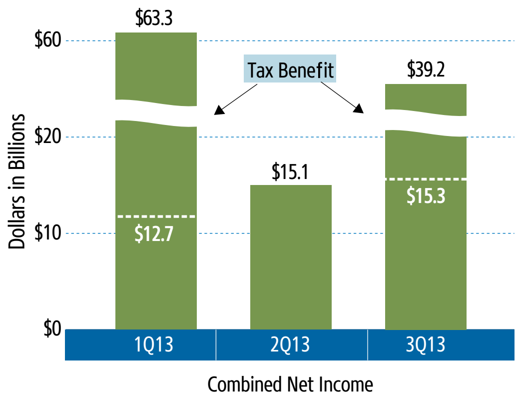
Report of Examinations of the FHLBanks

The FHLBanks showed some improvements in 2012. Overall, governance practices improved. Operational risk management continues to evolve, and some FHLBanks need to ensure that they allocate sufficient resources to this function. The FHLBanks' financial condition and performance in terms of return on assets and return on equity remained stable. All FHLBanks exceeded the minimum statutory capital requirement of 4 percent of total assets and their risk-based capital requirements at year-end. Credit risk management was generally stable or decreasing. The most significant credit risk associated with the FHLBanks continues to be their private-label MBS portfolios. Credit losses on these securities are highly dependent on the level and direction of housing prices.

Enterprises' Financial Condition Continues to Improve

Both Fannie Mae and Freddie Mac reported positive earnings for the nine months ended September 30, 2013, significantly influenced by the continued improvement in national house prices, including sales prices of real estate owned (REO) properties, combined with the further reductions in the number of delinquent loans guaranteed by the Enterprises. For the nine months ending September 30, 2013, the Enterprises reported combined net income of

FIGURE 14: The Enterprises Net Income (Dollars in Billions)



$117.6 billion bolstered by each Enterprise releasing its valuation allowance against deferred tax assets (DTA). The release of the DTA valuation allowance at Fannie Mae and Freddie Mac contributed $50.6 billion and $23.9 billion, respectively, to year-to-date net income (see Figure 14).

For the four quarters ending in September 2013, national house prices rose approximately 8.4 percent, according to the FHFA House Price Index. Rising house prices in almost all states lowered expected defaults on mortgages guaranteed by the Enterprises. States with the highest severity rates, such as Arizona, California, Nevada and Florida, experienced sharp increases in house prices over the past nine months, which reduced the severity of credit losses when the Enterprises sold REO properties.

Furthermore, the Enterprises' portfolio quality continues to improve as the share of mortgages acquired prior to 2009 continues to decline as a percentage of the total mortgage portfolios, and new loans acquired since 2009 have better credit characteristics. The Enterprises' seriously delinquent loan count declined by 22 percent to approximately 724,000 loans as of September 30, 2013, compared to approximately 930,000 loans as of December 31, 2012 (see Figure 15).

These factors contributed to a $20.1 billion decrease in the Enterprises' combined loan loss reserves during the first nine months of the year (see Figure 16). The reduction in loan loss reserves led to the Enterprises reporting a benefit for credit losses (i.e., a negative provision for credit losses) of $11.2 billion. The Enterprises have reported a benefit for credit losses in each of the first three quarters of 2013.

Earnings were further augmented by hedging gains, as the Enterprises reported combined fair value gains on derivatives of $4.0 billion for the first nine months of the year.

Additionally, prices of private-label mortgage-backed securities (PLMBS) rose considerably over the first nine months, particularly in the first quarter of 2013, influenced by increases in house prices and tighter credit spreads, as improved investor sentiment led to greater demand for these risky assets. As a result,

FIGURE 15: Seriously Delinquent Loans (Count in Thousands)

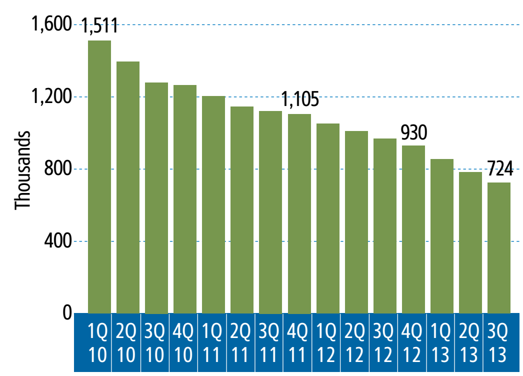
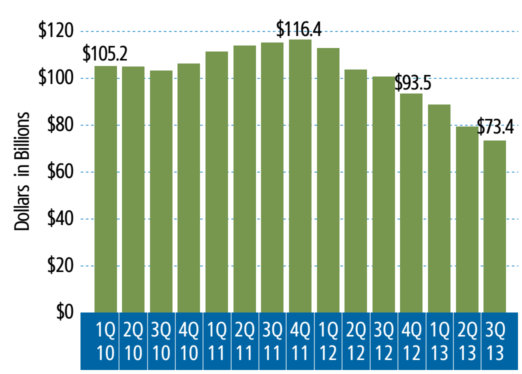


FIGURE 16: Loan Loss Reserves (Dollars in Billions)



the Enterprises reported an increase in accumulated other comprehensive income (AOCI) of $2.4 billion mainly due to unrealized gains on PLMBS.

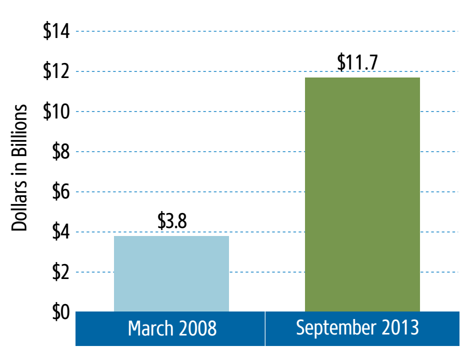
As of September 30, 2013, the Enterprises reported a combined net worth of $45.0 billion, and neither Enterprise has requested a draw from the Treasury in 2013. Over the first nine months of 2013, the Enterprises paid dividends to the Treasury totaling $91.0 billion, with additional dividends payable to the Treasury of $39.0 billion due by December 31, 2013.

FHLBanks' Financial Condition Stronger Now Than It Has Been In Years

The financial health of FHLBanks is stronger now than it has been in years thanks to improvements in the mortgage finance market. The decline in advances appears to have stopped with some evidence of increases ahead. Capital-to-asset ratios are at or near historic highs, and retained earnings levels, in relation to assets, are substantially higher. Retained earnings were $11.7 billion in Q4 FY 2013, a remarkable growth from $3.8 billion in the first half of 2008 (see Figure 17).

The Banks' capital is redeemable at par, i.e., face value—which makes it important for the market value of each Bank's equity (MVE) to be at or above the par value of its capital stock (PVCS). MVE is a snapshot of the market value of a firm's outstanding

FIGURE 17: FHLBanks Retained Earnings *(Billions)*



shares. MVE and the sensitivity of MVE to changes in market conditions are helpful measures of an FHLBank's condition and market risk.

MVE is frequently compared to PVCS to form the MVE/PVCS ratio. This effectively compares the market value of Bank equity to the capital contributed by member institutions. A ratio significantly below 1.0 may indicate poor Bank condition and an inability of the FHLBank to prudently repurchase or redeem its capital stock at par. This brings us to the very encouraging news that the MVE/PVCS ratio exceeded 1.0 at all FHLBanks (as of Q3 FY 2013) for the first time in many years.

FHFA Establishes a Uniform Examination Rating System for the Enterprises and the FHLBanks

Prior to 2013, the divisions supervising the FHLBanks (DBR) and the Enterprises (DER) applied different examination rating systems developed by the predecessor agencies that merged to form the FHFA. While risks common to the housing GSEs were addressed in each system, FHFA concluded that there should be a single, standardized rating system.

Today, FHFA employs a risk-focused rating system under which each regulated entity and the Office of Finance is assigned a common composite rating based on an evaluation of various aspects of its operations. Specifically, the composite rating of a Federal Home Loan Bank or an Enterprise is based on an evaluation and rating of seven components: **Capital**, **Asset quality**, **Management**, **Earnings**, **Liquidity**, **Sensitivity to market risk**, and **Operational risk** (CAMELSO). The composite rating of the Office of Finance is based primarily on an evaluation of two components: management and operational risk.

Under the rating system, each housing GSE is assigned a composite rating from 1 (best - the lowest

CAMELSO Component Assessments

Capital	Sufficiency of capital relative to GSE's risk profile
Asset Quality	Credit risk associated with assets and off-balance sheet transactions, and management's ability to identify, measure, monitor, and control credit risk
Management	Capability and willingness of board and management to identify, measure, monitor and control the risks of the GSE
Earnings	Quantity, trend, sustainability, and quality of earnings
Liquidity	Current level and prospective sources of liquidity compared to funding needs, and adequacy of funds management practices
Sensitivity to Market Risk	Degree to which changes interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect the GSE's earnings or economic capital
Operational Risk	Exposure to loss from inadequate or failed internal processes, people, and systems

degree of supervisory concern) to 5 (worst - the highest level of supervisory concern.) The composite rating reflects the ratings of the underlying components, which are also rated on a scale of '1' to '5'. The composite rating is not an arithmetic average of the component ratings. Instead, the relative importance of each component is determined on a case-by-case basis, within the parameters established by this rating system.

FHFA Directs the Enterprises to Adopt Some Features of the "Qualified Mortgage" Rule

In May 2013, FHFA directed Freddie Mac and Fannie Mae to adopt several new requirements established by the Consumer Financial Protection Bureau (CFPB) regulations implementing the "ability to repay" provisions of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The rule deemed loans eligible for GSE delivery to be Qualified Mortgages. Loans with application dates on or after January 10, 2014, must meet the following requirements to be eligible for sale to the Enterprises:

- Amortization – loans must be fully amortizing (*e.g.*, no negative amortization or interest-only loans);
- Term – loans must not have terms greater than 30 years (*e.g.*, no 40-year terms); and
- Points and fees – loans must not have total points and fees in excess of 3 percent of the total loan amount (or such other applicable limits for low balance loans).

The Enterprises will continue to acquire mortgages that meet their respective eligibility guidelines under the special GSE qualified mortgage definition, including loans processed through their automated underwriting systems. Guidance was issued to the lending community during August and September in preparation for the January implementation date.

Adoption of these new limitations by the Enterprises is in keeping with FHFA's goal of gradually contracting their market footprint and protecting borrowers and taxpayers.

FHFA Approves Agreement between Fannie Mae and Bank of America to Resolve Claims regarding Risky Loans

On January 7, 2013, FHFA announced that it approved a comprehensive agreement between Fannie Mae and Bank of America to resolve certain claims related to mortgages sold to Fannie Mae between 2000 and 2008 by Bank of America, Countrywide Home Loans, Inc., and other parties affiliated with Bank of America. Under this agreement, Bank of America made a cash payment to Fannie Mae of $3.55 billion and additionally paid the Enterprise approximately $6.75 billion to repurchase approximately 30,000 loans. Bank of America also agreed to continue to be responsible for its servicing, third-party indemnification, and recourse obligations. Bank of America also accepted responsibility for obligations with respect to mortgage insurance rescissions, cancellations, and denials on the loans covered by the agreement.

Also in January, FHFA approved two other separate agreements between Fannie Mae and Bank of America relating to Bank of America's servicing of Fannie Mae loans. Bank of America paid Fannie Mae another $1.3 billion for compensatory fees related to delays in Bank of America's delinquent borrower resolution obligations. Fannie Mae continues to reconcile the compensation fees paid by Bank of America and expects to return a portion of the fees paid back to Bank of America. The final agreement approved by FHFA transferred the servicing of approximately 900,000 Fannie Mae loans from Bank of America to specialty servicers.

The approval of these agreements was consistent with FHFA's responsibilities as conservator of Fannie Mae. They allowed Fannie Mae to recover losses from origination and servicing defects that have been, or could have been, absorbed by taxpayers in the absence of a resolution of these matters.

Examiner Commissioning Program Launched

FHFA launched the Housing Finance Examiner Commissioning Program in June 2013. The main objective of the program is to provide examiners with broad-based knowledge to conduct successful risk-based examinations. A Housing Finance Examiner Commission will indicate whether an examiner is qualified to lead the examination of a major risk area at Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The program combines coursework, on-the-job training, and testing to ensure an examiner has the skills and technical knowledge necessary to evaluate the condition and practices of the entities that FHFA supervises. The program builds on the common examination program instituted since the Federal Housing Finance Board and the Office of Federal Housing Enterprise Oversight merged to form FHFA.

Dodd-Frank Implementation of Derivatives Clearing for the FHLBanks

This year, consistent with requirements of the Dodd-Frank Act, the FHLBanks began clearing certain types of their derivatives with a derivatives clearing organization (DCO) through a futures commission merchant (FCM). This represents a marked change from the FHLBanks' historical practice of entering into derivatives in the over-the-counter (OTC) market directly with each counterparty.

Derivatives are used to hedge risks such as interest rate risk exposures. Derivatives are routinely used by many organizations. Prior to the Dodd-Frank requirements, OTC derivatives were not subject to government regulation, and many financial institutions' OTC derivative positions were not being measured, yet could systemically affect the market. Effective November 2012, these derivatives are now cleared through regulated entities (DCOs/FCMs) that require both collateral and robust reporting to enhance accountability and transparency. Through examinations and other supervisory reviews, FHFA will review and assess the FHLBanks' planning and operational readiness for complying with Dodd-Frank Act derivatives-related reporting, clearing, and recordkeeping requirements.

Loss Mitigation Efforts

Since being placed into conservatorship, the Enterprises have focused extensively on loss mitigation and borrower assistance activities. As of August 2013, 2.97 million foreclosure prevention transactions, half of which were permanent loan modifications, were completed. This year, FHFA announced the extension of three valuable foreclosure prevention and refinance programs, the Home Affordable Modification Program, the Streamlined Modification Initiative, and the Home Affordable Refinance Program, through year-end 2015.

Home Affordable Modification Program (HAMP) extended until December 2015 to Stabilize Secondary Mortgage Markets

HAMP is designed to assist financially-stressed homeowners avoid foreclosure by modifying delinquent loans to a level that is affordable. The program provides clear and consistent loan modification guidelines and includes incentives for borrowers, servicers, and investors to use the program. As of September 2013, 601,542 permanent HAMP modifications have been completed since the program started in April 2009. Under the program, mortgage companies work with eligible homeowners to restructure their loans, and to lower monthly payments down to 31 percent of income. According to data from the U.S. Treasury, borrowers participating in the program have realized a median monthly savings of $546 dollars.

FHFA Announces New Streamlined Modification Initiative

In late March 2013, FHFA announced that Fannie Mae and Freddie Mac would offer a new, simplified loan modification option to help struggling borrowers stay in their homes. The Streamlined Modification Initiative requires servicers to solicit eligible borrowers more than 90 days late with a proposed trial payment plan specifying the dollar amount of a new, lower mortgage payment. The new loan offers a fixed interest rate, extends the payment terms to 40 years and provides principal forbearance for certain underwater borrowers.

The new Streamlined Modification Initiative addresses borrower challenges associated with document collection by offering borrowers that are 90-days delinquent a modification with reduced paperwork requirements. Under the new Streamlined Modification Initiative, to receive a permanent modification a borrower must simply successfully complete a trial plan.

Streamlined Modification Eligibility Requirements

- Effective July 2013.
- Loan must be at least 90 days delinquent, but no more than 720 days delinquent.
- LTV greater than or equal to 80 percent.
- A Borrower Response Package is not required.
- The loan may not have been previously modified more than twice regardless of the modification program or dates of prior modifications.
- Loans not meeting the eligibility requirements for a Streamlined Modification will be evaluated for another type of modification or other foreclosure prevention alternative, provided the borrower submits a complete Borrower Response Package.

The Home Affordable Refinance Program (HARP) Continues to Have Positive Impact

HARP continues to help many underwater borrowers reduce their monthly payments or shorten their loan terms. As of August 2013, HARP refinances since program inception totaled nearly 2.9 million loans. However, there are still borrowers who would be able to benefit from the program. Therefore, FHFA has decided to extend the program through 2015. In addition, FHFA launched a public outreach campaign in September 2013 to increase HARP awareness and encourage borrowers to take advantage of the program. The campaign launched in Chicago, Cleveland, Detroit, Southern California/Riverside, Las Vegas, Atlanta, Miami, Tampa and Orlando includes:

- A new, consumer friendly HARP website, *www.HARP.gov*;
- A series of virtual events, held in partnership with lenders, in targeted markets with a blitz by local media;
- Customizable tools to help lenders promote HARP; and
- Partnerships to amplify the FHFA message and encourage access to the site's housing experts and refinancing tools.

FHFA Launches National Education Campaign for Home Affordable Refinance Program (HARP)

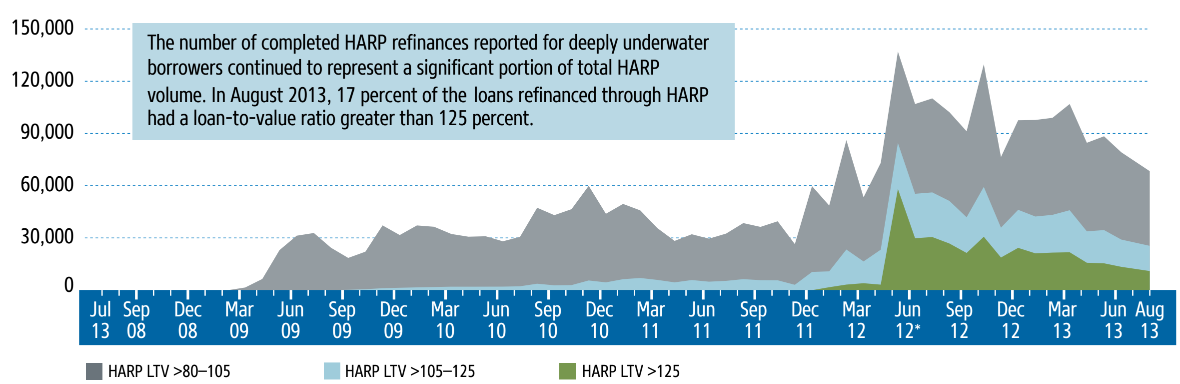
FHFA launched a nationwide media campaign designed to educate and inform homeowners about the benefits of refinancing through a lender supported program, which has helped nearly 2.9 million borrowers.

HARP encourages homeowners who have been making their monthly payments to contact their mortgage lender to consider options for refinancing. Even if the home is underwater (borrowers owe more than it is worth), homeowners can still take advantage of low rates. Eligibility requirements have changed to include the following:

- The loan must be owned or guaranteed by the Enterprises.
- The mortgage must have been delivered to the Enterprises on or before May 31, 2009.
- The current loan-to-value (LTV) ratio must be greater than 80 percent.
- The borrower must be current on their mortgage with no late payment in the last six months and no more than one late payment in the last 12 months.

FHFA opened a new website, www.HARP.gov, to help inform qualified homeowners of the benefits from this great program. FHFA is also working with HGTV personality, and star of *Power Broker,* Mike Aubrey to assist in our outreach efforts.

FIGURE 18: Monthly HARP Volume by Loan-to-Value Ratio



The number of completed HARP refinances reported for deeply underwater borrowers increased sharply in June 2012 as further enhancements to HARP went into effect. Starting June 1, 2012, lenders became able to deliver loans with loan-to-value ratios greater than 125 percent refinanced through HARP to the Enterprises to be securitized.

Sources: FHFA (Fannie Mae and Freddie Mac)

The Enterprises help Homeowners affected by Hurricane Sandy and other disasters:

FHFA worked with the Enterprises to align their guidance for borrowers located in FEMA-declared disaster areas eligible for individual assistance, such as the area affected by Hurricane Sandy. The Enterprises aligned their guidance to establish:

- Standard foreclosure and eviction moratoria;
- Forbearance for up to twelve months;
- Processing rules for insurance claims for borrowers who were current at the time of the disaster and whose property had not suffered a total or near-total loss;
- Increased insurance settlement claim limits (up to 10 percent of the unpaid principal balance or $40,000) for properties that suffered a near-total or total loss; and
- Rules to handle trial period plans for those borrowers who were already in a loan modification trial period and were affected by a disaster.

In addition to the guidance, both Enterprises appraised their REO portfolios in the area affected by Hurricane Sandy and worked with FEMA to determine properties that were habitable in order to rent those properties to borrowers.

FHFA Directs Enterprises to Address the Cost of Force-Placed Insurance

FHFA is considering methods the Enterprises may use to reduce their costs for lender-placed insurance (LPI). LPI is imposed by the lender or servicer when a homeowner does not maintain property insurance coverage as required by the mortgage instruments. When LPI costs cannot be covered by the borrower or from a foreclosure sale, mortgage servicers seek reimbursement from the Enterprises. Concerns about excessive LPI premiums and costs are well publicized and some states have already taken action to reform LPI practices and reduce rates.

FHFA directed the Enterprises to align their LPI policies. During 2013, FHFA assembled a working group comprised of federal and state regulators to discuss LPI practices and inform the development of a broad-based strategy to address them. This group has engaged mortgage servicers, consumer advocates, and insurance carriers and their intermediaries to get their input. In late March, FHFA published a notice in the Federal Register requesting input on the restriction of two practices that create incentives for servicers to seek out higher priced coverage. FHFA received 37 responses to the request for input. On November 5, 2013, FHFA directed the Enterprises to prohibit certain lender-placed insurance practices.

FHFA Promotes Fair Access to Enterprise Underwriting Systems

FHFA has discouraged the implementation of new minimum customer annual activity thresholds for selling, servicing and utilizing the Enterprises' automated underwriting systems. For example, Freddie Mac's proposed "low activity" fee of $7,500 would have created a significant financial burden on smaller community-based lenders and discouraged their ability to obtain liquidity in the secondary mortgage market. With FHFA encouragement, the fee was changed and now the minimal fee applies only to community-based lenders who have not delivered a loan within the past three years. This fee allows small lenders to maintain their approved seller status, which is important because it keeps the option open to make future sales to the Enterprise.

Enterprise Affordable Housing Goals

FHFA established annual housing goals for purchases of single-family mortgages and multifamily mortgages by Fannie Mae and Freddie Mac during 2012-2014 in a November 13, 2012 final rule (12 C.F.R. § 1282.12). The goals provide targets to the Enterprises for the purchase of mortgages from low- and very low-income homeowners. For CY 2012, FHFA determined that both Enterprises met all of their single-family and multifamily goals and notified them of our determination on October 28, 2013 (see Figures 19 and 20).

FIGURE 19: Enterprise Performance on 2012 Single-Family Housing Goals*

	2012	Official Goal Performance	
Goal Category	Benchmark Level	Fannie Mae	Freddie Mac
Low Income Home Purchase	23%	25.6%	24.4%
Very Low Income Home Purchase	7%	7.3%	7.1%
Low Income Area Home Purchase Goal	20%	22.3%	20.6%
Low Income Area Home Purchase subgoal	11%	13.1%	11.4%
Low Income Refinance	20%	21.8%	22.4%

Goals expressed as percentage of total mortgages purchased for the year.

FIGURE 20: Enterprise Performance on 2012 Multifamily Housing Goals

	2012 Goal Level (in units)		Official Goal Performance	
Goal Category	Fannie Mae	Freddie Mac	Fannie Mae	Freddie Mac
Low Income Multifamily	285,000	225,000	375,924	298,529
Very Low Income Multifamily	80,000	59,000	108,878	60,084

FHLBank Affordable Housing and Community Development Programs

The Affordable Housing Program (AHP) consists of a competitive application subsidized advance or grant program, and a homeownership set-aside grant program, designed to assist moderate-income, low-income and very low-income households. In CY 2012, the FHLBanks awarded $245 million to their AHP for the purchase, construction, or rehabilitation of over 29,500 housing units.

The Community Investment Program (CIP), is an advance program for affordable housing and targeted economic development. CIP advances must benefit households at or below 115 percent of the area median income. CIP economic development advances must benefit low- or moderate-income households, or they must benefit development located in low- and moderate-income neighborhoods. In CY 2012, CIP housing advances totaled approximately $2.2 billion and CIP economic development advances totaled about $5.1 million.

Office of Minority and Women Inclusion

FHFA's Office of Minority and Women Inclusion (OMWI) is charged with leading the agency's efforts to advance diversity and inclusion in all activities of the agency as well as assisting the efforts of the entities regulated by the FHFA. In its annual report to Congress for 2012, published in March 2013, the OMWI reported significant strides in fulfilling its mission in 2012. In addition to awarding $8.2 million in contracts to minority- and women-owned businesses (MWOBs), the agency now includes a contract clause for all contracts above $150,000 requiring contractors to confirm their commitment to including women and minorities in employment, contracting and subcontracting. In addition, OMWI assisted in efforts with the Enterprises to increase their contract awards to MWOBs.

Board and Enterprise Management

From the outset, FHFA stated that the goals of the conservatorships were to help restore confidence in the Enterprises, enhance their capacity to fulfill their missions, and mitigate the systemic risk that contributed directly to instability in financial markets. It is unprecedented that two enormous financial institutions such as these have been in conservatorships for more than five years. The prolonged time overseeing the conservatorships has required FHFA to adapt to changing circumstances, while remaining consistent with the fundamental responsibilities given to us. Today, FHFA is balancing three responsibilities: preserve and conserve assets, ensure market stability and liquidity, and prepare the Enterprises for an uncertain future.

In addition to the efforts of FHFA, the progress made during the conservatorships would not have been possible without the commitment of the boards, management, and employees of Fannie Mae and Freddie Mac. The leadership and staff at both companies remain committed to fixing what is broken and creatively addressing the challenging issues we face. Stability in the Enterprise management ranks is critical during this time, and, in 2013, there were fewer turnovers among Fannie Mae and Freddie Mac senior executives than in 2012 and 2011. Another key component of continuing to make progress during the conservatorships is the ability of the Enterprises to attract and recruit qualified board members. During 2013, long-standing vacancies on the board at Freddie Mac were filled with the election of three new members. All of the new members are well qualified and have extensive industry experience.

During FY 2013, FHFA issued revised letters of instruction to the Enterprises, building on the knowledge gained over the course of the conservatorships. The letters maintained FHFA's position that the day-to-day operations of the Enterprises are the responsibility of the Fannie Mae and Freddie Mac management and boards. However, the letters better defined the Enterprises' responsibilities to seek FHFA approval and establish appropriate governance processes surrounding submissions. The letters also clarified items requiring approval and notification.

Rehabilitation and Maintenance of Enterprises Infrastructure

FHFA is working to update the Enterprises' outmoded securitization infrastructures by replacing them with a common and more efficient securitization model. The ultimate goal is to develop a new securitization model that will have benefits beyond upgrading the current Enterprise business model. To achieve this, the new infrastructure must be operable across many platforms and operate in a cost effective manner so that any issuer, servicer, agent, or other party that decides to participate can use it.

In April 2013, FHFA issued a progress report on steps taken to establish a Common Securitization Platform for residential mortgage-backed securities. The report reflected feedback from a broad cross-section of industry participants following the 2012 issuance of the FHFA's white paper on the platform. The report noted progress and plans in the following areas:

- Work on the design, scope, and building of a platform to perform securitization functions relating to data validation, issuance, disclosures, master servicing, and bond administration is underway; a prototype has been developed.

- Alignment activities on Fannie Mae and Freddie Mac contracts and standards for mortgage-backed securities continue.
- The development of uniform contracts and standards for Fannie Mae and Freddie Mac credit risk sharing activities is proceeding.
- FHFA's plan to institute a formal structure for accepting input from industry participants is moving forward.

Further information on this work is provided in the discussion of Strategic Goal Four beginning on page 43.

FHFA Announces 2013 Conservator's Scorecard

On March 4, 2013, FHFA published the 2013 Conservator's Scorecard, setting forth performance goals for the Enterprises in furtherance of the Conservatorship Strategic Plan issued last year. The 2013 Scorecard set additional measurable targets for achieving our goals of *Build, Contract, and Maintain* to move the Enterprises to a stage where they will be ready for whatever transition policymakers set forth in the future. The 2013 Conservator's Scorecard outlined a number of priorities that support these goals. See Figure 21, for details on priorities.

FIGURE 21: 2013 Conservator Scorecard Priorities

BUILD	▸ Continue the foundational development of the Common securitization Platform (CSP). ▸ Continue the development of the Contractual and disclosure Framework (CDF) to meet the requirements for investors in mortgage securities and credit risk. ▸ Complete identification and development of data standards for Uniform Mortgage Servicing Data (UMSD), leveraging the Mortgage Industry Standards Maintenance Organization (MISMO) process. Establish timeline to implement data collection and use of UMSD data in enhanced disclosures and risk management strategy. ▸ Develop plan to standardize origination data as well as timeline for implementation.
CONTRACT	▸ Single-Family Credit Guarantee Business – Each Enterprise will demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion of unpaid principal balances in 2013. ▸ Multifamily Business – Reduce the unpaid principle balance (UPB) amount of new multifamily business relative to 2012 by at least 10 percent by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportion of the Enterprises' retained risk. ▸ Retained Portfolios – Reduce the December 31, 2012 retained portfolio balance by selling five percent of illiquid assets.
MAINTAIN	▸ Enhance the post-delivery quality control practices and transparency associated with the new representations-and-warranty framework. ▸ Complete representations-and-warranty demands for pre-conservatorship loan activity. ▸ Develop counterparty risk management standards for mortgage insurers that include uniform master policies and eligibility requirements. ▸ Incorporate policies related to lender-placed insurance in the Servicing Alignment Initiative.

Updated Mortgage Insurance Master Policies and Eligibility Requirements

FHFA is working with Fannie Mae and Freddie Mac to revise the mortgage-insurer eligibility requirements and mortgage insurance master policies.

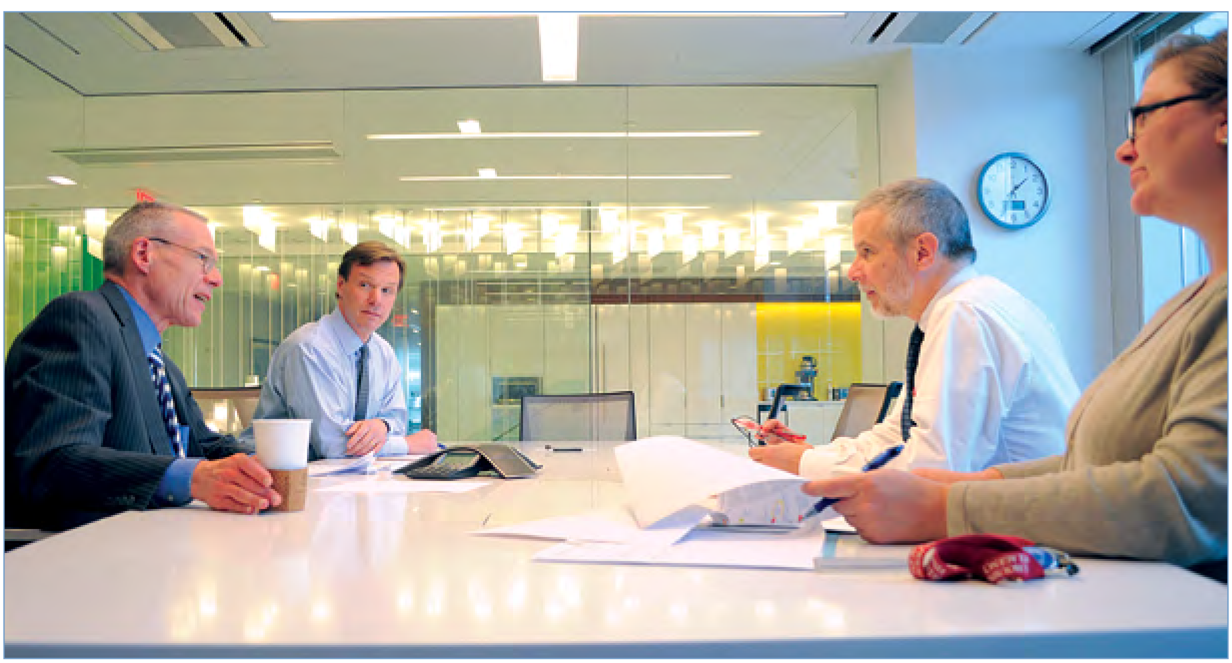
The objective of revising the eligibility requirements is to formulate and implement uniform standards for mortgage insurers that address three key areas of the mortgage insurance business model: financial strength, operational performance, and quality control. These eligibility requirements will enhance the counterparty risk management process conducted by the Enterprises in their dealings with the mortgage insurance companies. The new requirements will also promote a safer and more efficient housing finance system.

Work on updated eligibility requirements was nearing completion during the preparation of this report. The revised master policies will be uniform between the Enterprises and will be responsive to many of the issues that surfaced during the financial crisis including claims processing, loss mitigation, and the new representations and warranty model.

Completion of the work on the master policies was announced on December 2, 2013. The policies will go into effect in 2014 after review and approval by state insurance commissioners.

Litigation Developments

In order to fulfill FHFA's strategic goal of preserving and conserving Enterprise assets, FHFA is involved in numerous legal actions that seek to recover losses or to avoid liability to the Enterprises. By pursuing such legal actions when practical and cost-effective, the FHFA will be able to minimize taxpayer losses during the Enterprises' conservatorships. The primary legal actions taken by the FHFA are filing lawsuits against financial institutions over private label securities sold to the Enterprises and defending the Enterprises in suits filed by state and local governments over the Enterprises' exemption from state and local real estate transfer taxes.



Representatives from the Office of General Counsel. FHFA photo.

The FHFA has filed 18 lawsuits against financial institutions over private label securities sold to the Enterprises. As of October 2013, four of these lawsuits have been settled out of court. These settlements have resulted in payments of more than $4.8 billion from financial institutions to the Enterprises, which are then passed on to Treasury as dividend payments on Treasury's Senior Preferred Stock investments. The FHFA has represented the Enterprises as a defendant in 55 lawsuits filed by state and local governments over the Enterprises' exemption from real estate transfer taxes. Finally, several local governments have recently announced intentions to use their powers of eminent domain to restructure performing loans owned by entities regulated by the FHFA. In response, on August 8, 2013, the FHFA notified the public that it would consider initiating legal challenges to any local or state action that sanctions the use of eminent domain to restructure mortgage loan contracts that affect FHFA's regulated entities. FHFA may also direct its regulated entities to limit, restrict or cease business activities in jurisdictions employing eminent domain to restructure mortgage loan contracts.

Risk-Sharing Transactions

During FY 2013, FHFA worked with the Enterprises to investigate and develop several transaction structures to share the Enterprises' single-family mortgage credit risk with the private sector. FHFA set a target of $30 billion of unpaid principal balance (UPB) in credit risk-sharing transactions in CY 2013 for both Fannie Mae and Freddie Mac. FHFA specified that each Enterprise conduct multiple types of risk-sharing transactions to meet this target, e.g., expanded mortgage insurance; credit-linked securities; senior/subordinated securities; and other structures. The goal for 2013 was to move forward with these transactions and to evaluate the pricing and the potential for further execution in scale.

Issuance of Historical Loan-Level Mortgage Performance Data

To inform potential investors and facilitate the pricing of risk-sharing transactions, each Enterprise released loan-level information on the characteristics and credit performance of a sizable portion of the single-family mortgages it has financed in recent years.

In March, Freddie Mac released information on about 16 million fully amortizing, 30-year, fixed-rate loans originated from 1999 through 2011. Excluded from the dataset were adjustable-rate, initial-interest-payment-only, balloon, government-insured, step-rate, relief- refinancing loans including Home Affordable Refinance Program (HARP) loans, and other non-standard mortgages. The dataset includes monthly credit performance data on each loan, including information up to and including 180-days delinquency, through mid-2012. Voluntary prepayments and short sales, deeds-in-lieu of foreclosure, third-party sales, and foreclosures that occur before 180-days delinquency are indicated in the performance information.

In April, Fannie Mae made a comparable release of information on the characteristics of over 18 million mortgages acquired by the Enterprise from 2000 through the first quarter of 2012, along with credit performance data on the loans through the end of 2012. Each Enterprise is updating the credit performance information in its historical dataset on an ongoing basis. The data releases will facilitate analysis of proposed Enterprise credit risk-sharing transactions.

Enterprises Issue New Types of Debt Securities that Transfer Risk

Following their release of historical credit performance data, each Enterprise sold new types of debt securities that transfer to private investors a portion of the credit risk of a large reference pool of single-family mortgages that the Enterprise had previously securitized.

In July 2013, Freddie Mac sold one offering of a new type of debt security, Structured Agency Credit Risk (STACR) notes. This issue was backed by a reference pool of 30-year, fixed-rate mortgages. The loans in the reference pool had loan-to-value (LTV) ratios from 60 percent to 80 percent, and none was covered by mortgage insurance. In the July offering, the Enterprise sold $500 million in STACR notes, resulting in credit protection on $18.5 billion of collateral consisting of mortgages funded in the third quarter of 2012. The STACR notes are unsecured general obligations of Freddie Mac.

In October, Fannie Mae issued a new type of debt security that follows the structure of Freddie Mac's STACR notes. Specifically, Fannie Mae sold $675 million of "Connecticut Avenue" securities, resulting in credit protection on $25 billion of previously issued Fannie Mae MBS.

Both Enterprises anticipate additional risk-sharing transactions by the end of December 2013. Both Enterprises have met and exceeded their 2013 risk-sharing transaction goals, executing multiple risk-sharing goals totaling more than $30 billion.

New Representations and Warranties Model

Effective January 1, 2013, a new framework for selling representations and warranties went into effect that provides lenders representations and warranties relief on the credit underwriting of the borrower, property, and project as early as 36 months after acquisition. The loan must meet certain eligibility and on-time payment history requirements. The intent of this new framework is to provide lenders with greater certainty around repurchase exposure and liability to help improve the availability of credit. To that end, the Enterprises have developed and continue to develop tools to help lenders with purchase certainty. For example, the Enterprises have recently developed automated eligibility rules available for lenders to use before loan delivery. Under the new model, the Enterprises also perform quality control reviews closer to the time of delivery and provide meaningful feedback to lenders on manufacturing and loan quality.

FHFA and the Enterprises are monitoring the impact of the new framework and are continuing discussions with other federal agencies and the lending community to see what more can be done in this area.

FHFA Develops a Common Securitization Infrastructure for Housing Finance

Common Securitization Platform (CSP)

In October 2012, FHFA released a white paper entitled, "*Building a New Infrastructure for the Secondary Mortgage Market*," which set forth a proposal for both a new securitization platform and a model contractual and disclosure framework that were outlined in the *Strategic Plan for Enterprise Conservatorships* (SPEC). The combination of a Common Securitization Platform (CSP) and a Contractual and Disclosure Framework (CDF) will enable the Enterprises to engage in programmatic transactions to share mortgage credit risk with the private sector. This will allow for the contraction of the Enterprises' footprint in the market.

The proposal reflected key principles that are critical to the success of a functional secondary mortgage market. The proposal also focused on functions duplicated across the industry and for which greater standardization would benefit the overall market.

FHFA issued the *2013 Conservatorship Scorecard for the Enterprises* in March 2013, directing the Enterprises to move forward on the development of the CSP. During FY 2013, FHFA and the Enterprises completed the following tasks towards this objective:

- Establishment of initial ownership and governance structure for the CSP, as well as assignment of dedicated resources and establishment of an independent location site for the CSP Team
- Development of the design, scope and functional requirements for the CSP's modules and development of the initial business operational process model
- Development of a multi-year plan, inclusive of CSP build, test and deployment phases and the Enterprises' related system and operational changes
- Development of testing parameters and initiation of testing the CSP
- Production of progress reports to the public on the design, scope and functional requirements

FHFA made significant progress this year on the system development of the CSP. The core functionality across five modules- data validation, issuance, disclosures, master servicing, and bond administration- has been developed and further refined. The CSP team is following a structured software development life cycle process, with scheduled releases of updated functionality across the platform.

Contractual and Disclosure Framework (CDF)

During FY 2013, FHFA also directed the Enterprises to align contracts and standards to achieve efficiencies and to support the future securitization platform and the broader private market through the development of common standards. In the 2013 Scorecard, FHFA directed the Enterprises to explore alternative approaches to share mortgage credit risk in order to reduce their overall credit risk exposure. Through risk-sharing activities, there are opportunities to create efficiencies and standards that have the potential to benefit investors, lenders, borrowers, and taxpayers.

In FY 2013, the Enterprises in conjunction with FHFA undertook the following initiatives:

- Identifying and developing standards in data, disclosure and Seller/Servicer contracts
- Developing and executing work plans for alignment activities between the Enterprises with regard to common standards and creation of legal/contractual documents to facilitate varied credit risk sharing transactions
- Engagement with the public in a variety of forums to seek feedback, incorporate revisions, and support FHFA progress reports to the public

Joint Venture—FHFA Establishes an Entity to Build a New Secondary Mortgage Market

On October 7, 2013, FHFA announced that a certificate of formation has been filed in Delaware, establishing Common Securitization Solutions, LLC℠ (CSS) as a limited liability company. CSS is an equally owned subsidiary of Fannie Mae and Freddie Mac. The new entity's objective is to function like a market utility, instead of rebuilding the proprietary infrastructures of Fannie Mae and Freddie Mac. This new entity will house the CSP and the related business and operational functions. A commercial lease for CSS has been signed and the venture will soon be occupying office space in Bethesda, Maryland. FHFA is actively recruiting a CEO and Chairman of the Board, who will be independent from Fannie Mae and Freddie Mac. The new governing body will be regulated by FHFA. This is an important step towards building a new housing infrastructure.

Data Standardization

During FY 2013, FHFA worked on the Uniform Mortgage Servicing Data (UMSD) project, which is a component of the Uniform Mortgage Data Program (UMDP). By design, UMDP captures consistent and accurate mortgage data to improve loan quality and enhance risk management capabilities. UMSD will expand and standardize the servicing dataset used for managing performing and nonperforming loans and for disclosure reporting.

FHFA and the Enterprises are working with the industry to define the complete UMSD dataset requirements at this time. A full build-out and industry adoption is expected to take several years. FHFA and the Enterprises are working with the Mortgage Industry Standards Maintenance Organization (MISMO) to ensure that UMSD data points are accurately defined and specified for industry adoption. FHFA is also working with other agencies and the Enterprises to standardize origination data collected through the new Consumer Financial Protection Bureau's (CFPB) Closing Disclosure Form, which integrates parts of the HUD-1 and the final Truth in Lending forms. The Enterprises are also working to expand and reorganize the data collected on the Uniform Residential Loan Application (URLA).

The National Mortgage Database (NMDB) Initiative

In October 2012, FHFA signed an interagency agreement with the CFPB to develop the National Mortgage Database (NMDB). When completed, the NMDB will be a relational dataset created by merging Home Mortgage Disclosure Act (HMDA), servicing data, Freddie Mac, Fannie Mae, and other government agency loan-level mortgage data with credit bureau data. This relational data set will capture data in five dimensions: mortgage record, real estate transaction, household demography, characteristics of the house and neighborhood, and performance data on the mortgage and all credit lines of the mortgage borrower(s). A subset of NMDB borrowers will be surveyed through a recurring National Survey of Mortgage Borrowers, which will provide information not available from the other data sources.

The NMDB will address a wide variety of supervisory and policy related topics such as:

- Analysis of delinquent borrowers and loan modifications
- Benchmarking and comparison of loan performance
- Loss mitigation and borrower counseling
- Evaluation of the success of loan modifications
- Retrospective analysis of the causes of the subprime mortgage crisis
- Accessibility of affordable/fair lending
- Prepayment and default modeling

Further, the NMDB will satisfy market report mandates required under HERA for the FHFA and Dodd-Frank for the CFPB.

FHFA Employees at All-Hands Meeting. FHFA photo.

Management Challenges

Although FHFA has accomplished much over the past year, many challenges remain as regulator of the housing GSEs and conservator of the Enterprises. The GSEs' safety and soundness is an important element in preserving housing finance liquidity. Below are select challenges FHFA is currently addressing.

Managing in an Uncertain Environment

Since September of 2008, FHFA has been the conservator of the Enterprises. These conservatorships are the largest and most complex conservatorships in history. The conservatorships are not meant to be indefinite, but used only as a short-term opportunity to provide stability in the mortgage market while Congress and the Administration determine how best to address future reforms to the housing finance system.

The length of the conservatorships along with the uncertain future of both the Enterprises and the housing finance system has overshadowed all aspects of FHFA's operations. FHFA continues to face challenges with how best to direct and manage the Enterprises' operations while planning for an uncertain future.

Legislative initiatives and continued uncertainty

There has been some movement by Congress to address the issue of mortgage finance reform, with at least two bills introduced to date (one in the House and one in the Senate) that focus on revamping the current structure for mortgage finance and eliminating the current roles played by Fannie Mae and Freddie Mac. While there is general agreement that the private sector needs to play a larger role in the market, there continues to be significant disagreement on the future role of the Enterprises, with proposals ranging from eliminating the Enterprises altogether to transforming their operations into a more limited role of a federal mortgage insurance corporation.

Resources

Continued uncertainty with respect to the future of the Enterprises poses a continuing challenge in retaining and recruiting the necessary human resources required to operate the Enterprises effectively and efficiently. The operations of the Enterprises still support well over half of all new mortgage originations in the market. With the housing recovery still evolving, the Enterprises continue to play a dominate role in housing finance.

Attracting private capital to the mortgage market

One of the agency's primary objectives for the Enterprises is to reduce their footprint in the marketplace by shifting an increasing portion of mortgage credit risk from the Enterprises to private capital. To that end, FHFA has implemented several successful initiatives to encourage private capital to return to the marketplace. However, as long as there are two government-supported firms occupying this space with their future role in the marketplace uncertain, significantly increasing private sector capital in the market will be difficult to achieve.

Future role of the FHLBanks in a reformed housing finance system

Resolving the conservatorship of the Enterprises is essential to the future of the secondary mortgage market. However, there is uncertainty in the future role of the FHLBanks in a new revamped housing finance system as well. The FHLBanks could continue to fulfill their traditional role of secured lending to member institutions. Some legislative proposals have the FHLBanks expanding their role to assist their smaller members in aggregating and securitizing mortgage loans. Regardless of their future role, a revamped mortgage finance system might affect the value of system membership to existing members.

Completing the Development of a New Infrastructure for the Secondary Mortgage Market

FHFA is committed to preparing for the future of housing finance by establishing a stronger foundation on which Congress and market participants can build to replace the pre-conservatorship government-sponsored enterprise (GSE) model, regardless of the direction Congress chooses for the future. The existing proprietary infrastructures for the Enterprises are outmoded and in need of replacement. This makes current Enterprise infrastructures ineffective at adapting to market changes, issuing securities that attract private capital, aggregating data, or lowering barriers to market entry. In 2012, FHFA directed the Enterprises to begin developing a new common securitization infrastructure that will have benefits beyond the current Enterprise business model. The new infrastructure will be operable across many different platforms; operate in a cost effective manner; and can be used by any issuer, servicer, agent, or other party that decides to participate.

Common Securitization Platform (CSP)

A key challenge will be to complete, in an efficient and effective manner, the design, building, and testing of the Common Securitization Platform (CSP) and the associated operational infrastructure. The CSP will focus on the functions routinely repeated across the secondary mortgage market, such as issuing securities, providing disclosures, paying investors, and disseminating data. We are leveraging industry standard software and interface wherever possible, and are leveraging both Enterprise staff for their subject matter expertise and third party contractors and vendors for the software implementation and related activities.

To help ensure that the new CSP serves as a market utility, and not just as a replacement for the Enterprises' proprietary systems, the CSP will be housed in a separate legal entity (Common Securitization Solutions, LLC) that will be initially owned and funded by the Enterprises. Since the CSP is designed to be flexible, the long-term ownership structure can be adjusted to meet the goals and direction that policymakers may set forth for housing finance reform. It will be critical in FY 2014 for FHFA to operationalize this new legal entity by installing a strong leadership team, including a Chief Executive Officer and Chairman of the Board, to complete the development of the CSP.

Contractual and Disclosure Framework (CDF)

Developing common contractual standards for securities issued through the CSP will be a challenging task, but will be very valuable to the mortgage market of the future. To accomplish this, FHFA must analyze and understand various credit guarantee models and barriers to private capital participation. FHFA must also analyze and understand where current Enterprise standards may need alignment. For example, the current fully guaranteed Enterprise model has implications with regard to contracts where it may, in some areas, vary dramatically from the standards that private credit risk investors require, for example, the need for timely and efficient resolution of disputes. In other cases, the current Enterprise standards, once aligned, may be very beneficial to the development of future industry standards, regardless of credit guaranty, for example loan servicing.

Expanding Foreclosure Prevention Activities

FHFA is committed to maintaining foreclosure prevention activities to help qualified homeowners stay in their homes. It will be a challenge for FHFA to reach deeper into the pool of eligible, distressed homeowners to provide them access to foreclosure prevention activities.

FHFA currently works with the Enterprises to encourage their servicers to address borrower concerns promptly. Borrower concerns include requests regarding loan modifications and other foreclosure prevention options. The quicker issues are identified and addressed, the greater their chance for successful resolution. In addition, FHFA will work to (1) improve oversight of Enterprise activities in identifying servicer noncompliance with consumer complaints; and (2) expand monitoring of the Enterprises' oversight over their counterparties' compliance with laws that govern originating and servicing mortgage loans, including consumer protection laws.

In broad terms, we want to empower the public with information about how they may exercise their rights concerning disputes with their mortgage lender or servicer, and provide an avenue for the public to report this information.

Maintaining a Mission Focus for the FHLBanks

Focusing the FHLBank System on its core mission activities will be a challenge as the FHLBanks emerge from the effects of the recent financial crisis. FHFA wants to ensure that the FHLBanks are not using their GSE funding advantage for purposes other than housing finance and community development.

In 2013, FHFA asked the 12 FHLBanks to develop mission assets plans as addenda to their current strategic plans. The intent of this request was to start a discussion between FHFA and the FHLBanks about the best definition of, and metric for, core mission activities. FHFA intends to use that discussion to clarify expectations about each FHLBank's use of its charter and preferential market access to further the mission Congress gave to the FHLBank System.

Within the definition of mission activities, there are safety and soundness issues that must be addressed. Activities that stray from their core business of making advances can expose the FHLBanks to counterparty risk. Continued consolidation of primary market lenders can expose the FHLBanks to concentration risk. However, depending on the economy and the evolving structure for primary market lending, a mission-focused FHLBank may have difficulty maintaining a sustainable size. Addressing these issues in the context of maintaining mission focus will be a challenge.

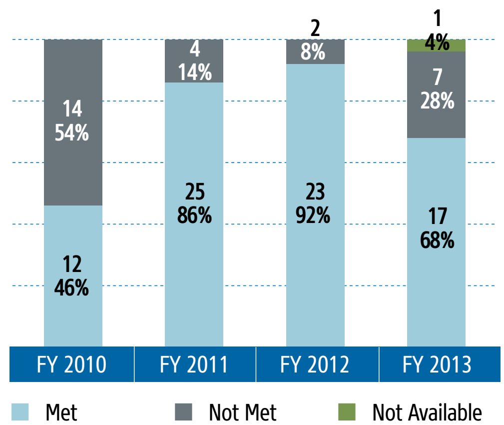
FY 2013 Performance Summary

This section describes FHFA's strategic and performance-planning framework, performance measures not met, the reasons why, proposed improvements, and the eight key performance measures that most closely reflect the agency's achievements and desired outcomes. (For a comprehensive list of the 25 performance measures, see **pages 74 through 93**.) FHFA's performance measures are rated as:

- Target Met; or
- Target Not Met.

FHFA determines that performance goals are met if targets for all performance measures have been achieved. Goals are counted as not met if at least one target performance measure has not been achieved. In FY 2013, FHFA had data for 24 of the 25 performance measures. The agency met or exceeded 17 of its measures and failed to meet seven performance measures (see Figure 22).

FIGURE 22: FY 2013 Performance Results



Representatives of FHFA's Division of Housing Mission and Goals, Office of Financial Analysis, Modeling & Simulations. FHFA photo.

Performance data for one measure will be available during the second quarter of FY 2014. For additional details on unmet measures (see Figure 23).

FIGURE 23: Status of Performance Measures Unmet

Unmet Measures	Reason	Steps Required to Meet
Measure 1.1.1		
Develop a written supervisory strategy for each regulated entity that effectively identifies risks and ensures corrective actions are implemented. **Target:** December 1, 2012	There was a delay in meeting the target date, but written strategies have since been developed. Target was met on January 7, 2013.	No further action required.
Measure 1.1.2		
Percentage of examination findings remediated since the last exam or in accordance with approved remediation plan. **Target:** 100 percent	One FHLBank did not adequately address all aspects of its 2012 MRA. Out of 104 MRAs reviewed, only one was unresolved. FHFA expects the FHLBank to remediate this MRA during 2014.	FHFA examiners took appropriate action in response to the Bank's failure to remediate fully the MRA. FHFA will review the Bank's compliance with the re-issued MRA during the FY 2014 examination cycle.
Measure 2.1.2		
Number of foreclosure alternatives successfully completed. **Target:** 447,000	An improving economy lowered overall delinquency rates. As a result, only 333,819 foreclosure alternatives were completed.	No further action required.
Measure 2.1.3		
Number of REO dispositions in individual markets to promote recovery via existing and new distribution channels. **Target:** 353,000	An improving economy has lowered foreclosures and therefore the Enterprises REO inventory. REO dispositions totaled 220,364 properties.	No further action required.
Measure 2.3.2		
Increase number/dollar amount of awards to women and minority owned businesses by FHFA **Target:** Increase from prior year	Total dollar awarded to women and minority-owned businesses totaled $7,030,433 in FY 2013, down from $7,301,036 in FY 2012.	Continued monitoring of FHFA awards and review of FHFA's outreach to women and/or minority owned business.
Measure 3.1.3		
Reduce the amount of current outstanding repurchases. **Target:** 50 percent	One Enterprise reduced their repurchase requests by nearly 82 percent while the other Enterprise increased their repurchase requests by 14 percent.	The Enterprise's current outstanding repurchases will be reduced further in the October-December quarter due to recent settlement activity.
Measure 4.1.2		
Finalize plan(s) for the securitization platform and pooling and servicing agreement. **Target:** 3rd Quarter FY 2013	The 2013 Conservator Scorecard further refined the milestones for the year and was not issued until March 2013. The completion date for the refined plans was extended to the first quarter of FY 2014.	Progress continues toward finalizing the plans for the development of the platform agreement.

FHFA's Strategic Planning Process

FHFA sets long-term and annual goals and monitors progress throughout the year. The agency assesses its progress in meeting its performance measures through quarterly performance tracking meetings with the senior leadership team.

The Acting Director chairs these quarterly meetings. FHFA staff prepares performance reports and discusses the agency's record relative to its performance measures. The meetings highlight the agency's record-to-date and challenges for the future, with a focus on how to meet targets and ensure success in support of the agency mission.

FY 2013 was the first year that FHFA operated under its recently released FY 2013-2017 Strategic Plan, which includes a new strategic goal of planning for the future of the United States' housing finance system. The strategic plan further details the outcomes the agency is seeking to achieve, the means and strategies that will be used to accomplish those outcomes, and the performance measures that will be used to gauge the agency's progress.

Data Completeness and Reliability

This report contains complete and reliable performance and financial data for FHFA. Where appropriate, the report notes data limitations of specific performance goals. FHFA reviews, verifies, and validates the accuracy of performance data reported on a quarterly basis. Coordination with the applicable offices to validate performance measures is carried out with senior level executives. This year, FHFA deployed a new automated tracking system that the agency uses to store and track performance indicators.

Based on the agency's assessment of internal controls and compliance with Office of Management and Budget Circular A-123, the agency's risk management and internal control systems, taken as a whole, conform to the standards prescribed by the GAO and the Federal Manager's Financial Integrity Act. For details of FHFA's management assurances see **page 73**.

FY 2013 Annual Performance Plan

The *FY 2013 Annual Performance Plan (APP)* describes what FHFA intended to do during the year to achieve the goals and objectives described in the Strategic Plan. FHFA's APP includes 25 performance measures and nine performance goals in support of our four strategic goals. The measures under Strategic Goal 4 represent ongoing activities related to *A Strategic Plan for Enterprise Conservatorships (SPEC)*. Other areas of the SPEC are highlighted within select measures under Strategic Goal 2 and Strategic Goal 3. The full SPEC is available at *www.fhfa.gov/AboutUs/Reports/Pages/A-Strategic-Plan-for-Enterprise-Conservatorships.aspx.*

This section also describes the agency's performance against its FY 2013 Annual Performance Plan, which outlined the means and strategies to achieve the annual performance goals and related measures for the past year. Eighteen measures were deleted from the FY 2013 plan (See page 131 for a list of the measures no longer reported on in the Other Information Section).

Overview of FHFA's Eight Key Performance Measures

FHFA identified eight of the 25 performance measures for FY 2013 as **key performance measures** These measures are critical to achieving our strategic goals and objectives. The key performance measures address remediation of supervisory concerns, loss mitigation efforts, guarantee fees, and litigation developments regarding the housing GSEs. The eight key performance measures apply to all the agency's four strategic goals.

During FY 2013, FHFA met or exceeded all but two of the key performance measures.

STRATEGIC GOAL 1 Safe and Sound Housing GSEs

The focus of Strategic Goal one is to promote the safety and soundness of the housing GSEs through prudential supervision and regulation (see **pages 79–82** of the Performance Section for a list of all measures associated with this goal).

Table 1 summarizes the key performance measures for safety and soundness of the housing GSEs. Matters Requiring Attention (MRAs) identify issues of particular supervisory concern and direct the GSE to address these concerns. Throughout the supervision process, FHFA works with the GSEs to resolve issues as quickly as possible by requiring and monitoring corrective action plans. Findings from supervisory activities are presented to GSE management and/or to their boards of directors with the expectation that they will implement corrective measures acceptable to FHFA.

The Enterprises are required to develop an acceptable plan for remediating an MRA within 60 days of receipt. FHFA has been revising its MRA process to focus Enterprise attention, resources and responsibility on resolution and self-validation. The Enterprises successfully resolved or began resolving all MRAs with an acceptable remediation plan. At fiscal year-end, there were 69 MRAs at least 60 days old, including 13 at Freddie Mac and 56 at Fannie Mae, or a decrease since June 30, of one MRA at Freddie Mac and an increase of two at Fannie Mae. Of the MRAs over 60 days old as of September 30, all had remediation plans that were acceptable to FHFA.

The FHLBanks successfully resolved 99 percent of all MRAs with an acceptable remediation plan, while technically not meeting the 100 percent target. During FY 2013, FHFA reviewed 104 outstanding MRAs and determined that 103 were sufficiently addressed in accordance with a plan. FHFA issued a new MRA in FY 2013 that addressed outstanding concerns for the unresolved MRA.

TABLE 1: Key Performance Measures for Safety and Soundness of the Housing GSES

PERFORMANCE GOAL 1.1
Identify risks and require timely remediation of weaknesses

PERFORMANCE MEASURE 1.1.2
Percentage of examination findings remediated since the last exam or in accordance with approved remediation plan

	FY 2011	FY 2012	FY 2013
Target	New measure for 2013	New measure for 2013	100%
Performance Results Key: Goal Fulfillment			Target Not Met

The focus of the second strategic goal is the housing mission of FHFA. As the supervisor for the housing GSEs, FHFA has a critical responsibility to foster a well functioning, stable, and liquid housing finance system. Only through effective supervision can FHFA ensure that the entities serve as a source of liquidity for homeowners and rental housing markets at an efficient and reasonable price.

Table 2 summarizes the three key performance measures for the housing mission. The Home Affordable Refinance Program (HARP) provides help to homeowners with mortgages at a loan-to-value ratio of greater than 80 percent by enabling them to refinance into a lower interest rate mortgage. This program was further enhanced by removing the 125 percent loan-to-value cap in order to allow more underwater homeowners to take advantage of this program. FHFA continues to work with the Enterprises and the lending community to find ways to increase the number of homeowners who are able to refinance through HARP by reducing potential impediments in the program, or pursuing foreclosure preventative measures.

FHFA met performance measure 2.1.1 regarding HARP. A total of 1,019,286 refinances were successfully completed through HARP during fiscal year 2013 (through August 1, 2013, the most recent data available), exceeding the fiscal year 2013 target of 600,000.

The purpose of measure 2.1.2 was to gauge the number of foreclosure prevention actions that were completed by Fannie Mae and Freddie Mac during the year. These foreclosure alternatives help troubled homeowners avoid foreclosure, thereby reducing the severity of losses resulting from a borrower's default and minimizing the impact of foreclosures on borrowers, communities, and neighborhoods.

Improvements in the housing markets resulted in performance measure 2.1.2 not being met. A total of 333,819 foreclosure alternatives were completed in the first 11 months of fiscal year 2013. At the current run rate through August 2013 the Enterprises completed approximately 478,300 foreclosure alternatives in fiscal year 2013, less than the annual target of 447,000. As housing markets are starting to stabilize and unemployment rates improve, the number of delinquent loans continues to decline at both Enterprises as fewer loans miss one or two payments and fewer loans roll to serious delinquency status. Last fiscal year, the Enterprises completed 388,000 foreclosure alternatives. It is worth noting that the Enterprises' delinquent loan counts have decreased 24 percent since September 2012. Given the declining trend in the number of delinquent loans, the target number of 447,000 foreclosure alternatives for FY 2013 may have been too high.

Measure 2.3.1 sought to achieve greater uniformity between the guarantee fees charged to lenders who sell mortgages to the Enterprises. Traditionally, the Enterprises have provided pricing discounts to lenders that deliver the largest volumes of loans. FHFA has worked with the Enterprises to make the guarantee fees charged to lenders who deliver smaller volumes of loans no higher than those charged to lenders who deliver larger volumes.

FHFA was successful in meeting this measure. FHFA's monitoring of Enterprise single-family total guarantee fees (ongoing plus upfront) confirms that large lenders no longer benefit from lower fees.

See **pages 82–87** of the Performance Section for a list of all measures associated with this goal.

TABLE 2: Key Performance Measures for Stability, Liquidity, and Access in Housing Finance

PERFORMANCE GOAL 2.1 Promote stability and mitigate systemic risk that could lead to market instability			
PERFORMANCE MEASURE 2.1.1 Number of refinances successfully completed through Home Affordable Refinance Program (HARP) 2.0			
	FY 2011	FY 2012	FY 2013
Target	New measure for 2013	New measure for 2013	600,000
Performance Results Key: Goal Fulfillment			Target Met
PERFORMANCE MEASURE 2.1.2 Number of foreclosure alternatives successfully completed (includes loan modifications, short sales, and deeds-in-lieu).			
	FY 2011	FY 2012	FY 2013
Target	New measure for 2013	New measure for 2013	447,000
Performance Results Key: Goal Fulfillment			Target Not Met

PERFORMANCE GOAL 2.3 Expand access to housing finance for diverse financial institutions and qualified borrowers			
PERFORMANCE MEASURE 2.3.1 Reduce variance in single-family guarantee fees charged to lenders that sell large versus small volumes of mortgages to the Enterprises			
	FY 2011	FY 2012	FY 2013
Target	New measure for 2013	New measure for 2013	Narrowing variance in year-ending June 30, 2013, from preceding year
Performance Results Key: Goal Fulfillment			Target Met

STRATEGIC GOAL 3 | Preserve and Conserve Enterprise Assets

The focus of Strategic Goal 3 is on the Enterprises conservatorships. As conservator, FHFA's primary role is to protect the taxpayer by preserving and conserving Enterprise assets.

Table 3 summarizes the key performance measures for FHFA's goal to preserve and conserve the Enterprise assets. In the past, there has been some cross-subsidization in the Enterprises' pricing, whereby lower-risk loans cross-subsidize higher-risk loans. FHFA has collaborated with the Enterprises on a plan to reduce these cross-subsidies and move guarantee fee pricing toward levels that would exist in a fully private market. Measure 3.1.1 sought to reduce cross-subsidization.

The changes to single-family guarantee fees implemented in the first quarter of FY 2013 reduced cross-subsidization across mortgage products from loans with 15-year maturities to the 30-year loans. In addition, FHFA is actively considering changes to upfront fees that reduce cross-subsidies from low credit risk loans to high-risk loans and that reduce cross-subsidies from states with low foreclosure costs to states with high foreclosure costs.

Measure 3.1.2 protects and conserves assets of the regulated entities and protects the agency's rights as conservator and regulator. The Enterprises have faced major challenges stemming from issues related to bad loans during the period when underwriting standards did not align with originators' or private-label securitizers' representations. FHFA continues to undertake multiple legal actions and has prevailed in several successful resolutions of them. For example, favorable private label securities (PLS) settlements were reached with Citigroup Inc., Wells Fargo & Company and UBS Americas Incorporated during the year.

FHFA met or exceeded the key measures of performance goal 3 during FY 2013. **Pages 87–90** of the Performance Section includes a list of all measures associated with this goal.

TABLE 3: Key Performance Measures Demonstrating FHFA's Goal of Preserving and Conserving Enterprise Assets

PERFORMANCE GOAL 3.1 Minimize taxpayer losses during the Enterprises' conservatorships			
PERFORMANCE MEASURE 3.1.1 Reduce cross-subsidization in Enterprise single-family guarantee fees			
	FY 2011	FY 2012	FY 2013
Target	New Measure for 2013	New Measure for 2013	Year-ending June 30, 2013, compared to preceding year
Performance Results Key: Goal Fulfillment			Target Met
PERFORMANCE MEASURE 3.1.2 Undertake and defend legal actions that recover upon losses or seek to avoid liability to the GSEs.			
	FY 2011	FY 2012	FY 2013
Target	New Measure for 2013	New Measure for 2013	Pursue legal actions where available and cost effective
Performance Results Key: Goal Fulfillment			Target Met

STRATEGIC GOAL 4 | Prepare for the Future of Housing Finance in the U.S.

The focus of Strategic Goal 4 is to set forth objectives and steps the FHFA is taking or will take to meet the agency's obligations as conservator and prepare for the future of the Enterprises.

Table 4 summarizes the two key performance measures that demonstrate FHFA's efforts towards preparing for the future of housing finance. **Pages 90–93** of the Performance Section includes a list of all measures associated with this goal.

During FY 2013, FHFA achieved 4.2.1 by working with the industry to develop servicing data standards. The Enterprises, under the direction of FHFA throughout 2013, engaged in extensive industry outreach to servicers, vendors, mortgage insurance companies and other Government agencies on the Uniform Mortgage Servicing Database (UMSD) data points. Mortgage Industry Standards Maintenance Organization (MISMO) has accepted all proposed changes to the data model by the Enterprises, which included updates for over 1,000 new or existing data points. This effort will provide lenders a higher degree of certainty around repurchase exposure and liability as well as consistency around repurchase timelines.

Regarding performance measure 4.3.1, increasing the average national ongoing guarantee fee will help contract the Enterprises' footprint in the mortgage market. During FY 2013, FHFA met this measure.

Changes in single-family guarantee fees implemented in the first quarter of FY 2013 increased the national on-going guarantee fee charged by each Enterprise by 10 basis points.

FHFA anticipates gradual increases based on risk and cost of capital that will move g-fee pricing closer to a market-based rate. FHFA will continue to work with the Enterprises to better align pricing of guarantee fees with risk.

TABLE 4: Key Performance Measures for Stability, Liquidity, and Access in Housing Finance

PERFORMANCE GOAL 4.2 Establish standards that promote a safer and more efficient housing finance system			
PERFORMANCE MEASURE 4.2.1 Work with the industry to develop servicing data standards, and agree on a timetable for data collection			
	FY 2011	FY 2012	FY 2013
Target	New Measure for 2013	New Measure for 2013	Q3 FY 2013
Performance Results Key: Goal Fulfillment			Target Met

PERFORMANCE GOAL 4.3 Contract Enterprise operations			
Performance Measure 4.3.1 Increase the average national ongoing g-fee			
	FY 2011	FY 2012	FY 2013
Target	New Measure for 2013	New Measure for 2013	Fiscal Year-ending 9/30/13 compared to preceding year
Performance Results Key: Goal Fulfillment			Target Met

Program Evaluations

During FY 2013, FHFA operated under its FY 2013-2017 strategic plan. This plan sets out the agency's mission, vision, values, and strategic goals through FY 2017. Through quarterly performance tracking meetings with senior leadership, FHFA reviews its progress, and verifies and validates performance data to ensure reliability and accuracy. The FHFA had an independent external evaluation conducted of its Information Security Program by Kearney & Company.

FHFA's Office of Inspector General (OIG) began operations in October 2010. OIG assessed several of FHFA's most serious management issues during FY 2013. See **pages 132–138** of the Other Information section.

FHFA reviewed 13 audits, 9 evaluation surveys, and 2 white papers issued by the OIG in FY 2013. The OIG has issued 74 recommendations that were due in FY 2013. FHFA completed/closed 72 recommendations while 2 recommendations will remain open due to final actions that will extend beyond FY 2013.

OIG Performance Evaluations		
Evaluation	**Summary**	**Summary of FHFA's Response**
FHFA's Oversight of the Enterprises' Compensation of Their Executives and Senior Professionals—December 2012	FHFA has increased its control and oversight of the Enterprises' executive compensation, which amounts to an estimated $92 million annually. Though a sizeable expenditure, non-executive pay is almost five times as large as executive pay. Therefore, FHFA-OIG recommends that FHFA increase oversight of non-executive pay at the Enterprises through reviews or examinations. OIG recommends that FHFA develop a long-term plan to strengthen its oversight of the Enterprises' non-executive compensation, by focusing on senior professional compensation.	FHFA recognizes the importance of having a robust approach to executive compensation and has recently enhanced control and oversight of the Enterprises' executive compensation in its role as both the conservator and supervisor of Fannie Mae and Freddie Mac. The enhancements to FHFA's oversight process will include the addition of dedicated resources within the Division of Supervision Policy and Support who will focus solely on FHFA's supervisory policies and examination activities related to the design, controls and execution of executive compensation arrangements for all Enterprise employees. Further, FHFA agrees with FHFA-OIG that non-executive, especially senior professional, compensation merits enhanced review by FHFA. The Agency will be addressing that consistent with OIG recommendations.

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OIG Performance Evaluations		
Evaluation	**Summary**	**Summary of FHFA's Response**
Freddie Mac's Unsecured Lending to Lehman Brothers Prior to Lehman Brothers' Bankruptcy—March 2013	FHFA, acting as Freddie Mac's conservator, is actively engaged in recovering $1.2 billion owed by Lehman as a result of two unsecured short-term loans that were provided by Freddie Mac in August 2008. FHFA-OIG found that in the months leading up to Lehman's default, serious flaws in the corporate culture at Freddie Mac allowed for counterparty risk management policies to be overridden. Proper adherence to counterparty risk management would have altered the terms of the loans and reduced the Enterprise's risk. Since the default, FHFA and Freddie Mac have taken steps to improve the Enterprise's corporate governance environment and to improve its risk management procedures. FHFA should continue to monitor Freddie Mac's implementation of its counterparty risk management policies and procedures in order to ensure that the independence and decisions of the Enterprise's risk management staff are not overridden by business management staff.	The report describes events that resulted in the $1.2 billion unsecured loan made from Freddie Mac to Lehman Brothers in 2008, which was not yet due at the time of Lehman's entry into bankruptcy protection on September 15, 2008, and no portion of it has been repaid. FHFA agrees with the critical importance of a strong risk management function at the Enterprises, and will continue to focus on issues raised in the evaluation. FHFA has no additional comments on the evaluation's audit recommendations.
FHFA's Oversight of the Federal Home Loan Banks' Affordable Housing Programs (AHP)—April 2013	The FHLBanks' AHPs involve multiple stakeholders, lack direct oversight of AHP projects, and play a major supplementary role in funding housing programs. FHFA must work to establish additional and enhanced oversight techniques. OIG found that FHFA's primary oversight mechanisms are targeted annual examinations of AHPs. FHFA relies on the FHLBanks, their member institutions, other project funders, and various private and public entities to monitor housing projects supported by AHP on an individual level. Thus, the success of AHP projects is at risk to the extent that oversight by government entities or funding organizations is weak. FHFA's oversight could be improved through site visits and dissemination of crosscutting feedback or trend analyses by FHFA to the FHLBanks. Such actions will ensure proper oversight for a program that serves as a vital supplementary source of funds for private and public sector affordable housing projects and has awarded over a $4 billion dollars in funds since 1990.	FHFA believes that the report neither identifies instances of mismanagement/fraud nor does it demonstrate instances in which site visits would have enhanced program monitoring. FHFA also does not agree that typical practices of "grant giving federal agencies" apply to FHLBanks as they are not federal agencies but private institutions. Nevertheless, FHFA will supplement existing monitoring requirements with guidance specifically related to site monitoring to supplement existing methods of remote monitoring. However, site visits will not be mandatory for all projects supported by AHP funds. Specific conditions in an FHLBank's district and the project's risk of non-compliance will be incorporated into the guidance. FHLBanks' monitoring plans must be included in an FHLBank's AHP implementation Plan, and they will continue to be subjected to FHFA supervisory oversight and examinations. FHFA agrees that cross-cutting analyses will bring value to the Affordable Housing Program; however, the current examination program involves such analyses. Finally, the evaluation does not acknowledge the comparative analysis inherent in the current examination program.

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OIG Performance Evaluations		
Evaluation	**Summary**	**Summary of FHFA's Response**
FHFA's Initiative to Reduce the Enterprises' Dominant Position in the Housing Finance System by Raising Gradually Their Guarantee Fees—July 2013	FHFA's initiative of periodic guarantee fee increases has the potential to reduce direct taxpayer exposure to mortgage-related losses by encouraging private sector participation in the secondary mortgage markets. As part of its efforts to implement the initiative, FHFA should enhance transparency and strengthen communication and interactions with FHA on key issues. OIG recommends that FHFA, preferably in consultation with FHA, develop definitions and performance measures that would permit the public to assess the progress and the effectiveness of its initiative. OIG also recommends that FHFA assess the costs and benefits of establishing a formal working arrangement with FHA to assess such critical issues as: The implementation of pricing initiatives and prospects for success in achieving objectives; and the potential for shifts of mortgage business and risks between government supported or guaranteed markets.	The FHFA has worked, in coordination with FHA, to develop definitions and performance measures that would allow the public to assess the progress and the effectiveness of FHFA's initiative. FHFA has publically explained its guarantee fee actions, and provided reasons supporting the agency's strategy and actions. FHFA's goal is a regular and increasing flow of new mortgage securities backed by quality loans. FHFA disagrees with OIG's recommendation to establish a formal working relationship with FHA to collaborate on pricing initiatives. HERA created FHFA as an independent agency with specific statutory responsibilities. Consequently, FHFA believes an informal approach to working with other federal regulatory agencies is more appropriate. FHFA communicates frequently with other agencies about common concerns and issues. FHA pricing structures are quite different from those of the Enterprises (for instance, FHA has uniform pricing for all borrowers), and lenders' decisions about where to send most loans are not especially sensitive to Enterprise price changes. Finally, FHFA has a statutory responsibility to conserve Enterprise assets. Neither HUD nor FHA shares that objective, because those agencies do not have the same responsibility by statute as FHFA.
Home Affordable Refinance Program: A Mid-Program Assessment—August 2013	When HARP was announced in March 2009, Treasury and FHFA estimated that four to five million borrowers would have the opportunity to refinance under the program. As of September 2011, however, fewer than one million of those borrowers had refinanced. Based on consultations with lenders and feedback from borrowers, FHFA directed the Enterprises to modify the program. This led to the creation of HARP 2.0. HARP 2.0 is scheduled to expire on December 31, 2015. As a result of the HARP 2.0 modifications, HARP refinance volume increased substantially—particularly for loans with LTVs greater than 105 percent. As of March 2013, there have been more than 2.4 million HARP refinances. FHFA's active administration of HARP 2.0 and its engagement of stakeholders have contributed to these outcomes. However, with over two years left in the program, it is difficult to project how many HARP-eligible loans ultimately will be refinanced because, among other factors, educating borrowers and encouraging their participation continue to be major challenges for the program.	FHFA issued no response to this evaluation.

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OIG Performance Evaluations		
Evaluation	**Summary**	**Summary of FHFA's Response**
FHFA's Oversight of the Federal Home Loan Banks' Compliance with Regulatory Limits on Extensions of Unsecured Credit—August 2013	In 2012, FHFA conducted a thorough horizontal review during which it identified over 900 primary and secondary unsecured credit regulatory violations at 7 FHLBanks. In addition, FHFA found risk management deficiencies of varying degrees at the other 5 FHLBanks. Moreover, in 2012, FHFA acted in accordance with Agency supervisory policy and directed the seven FHLBanks that committed violations to take remedial actions within specified timeframes. To remedy the findings, FHFA issued Matters of Requiring Attention (MRAs) to direct the FHLBanks to correct the problems. Despite this action, the inability to implement recommendations suggested by the MRAs persisted in 2013. FHFA must exercise diligent and forceful oversight on an ongoing basis in order to ensure that FHLBank corrective action is undertaken and sustained over time. Proper oversight is essential given the widespread nature of the violation of unsecured credit regulations and presence of risk management deficiencies in the FHLBank System.	FHFA agrees with OIG's recommendation to ensure that Agency examiners thoroughly assess FHLBank compliance with MRAs and other supervisory requirements and to remediate unsecured credit violations and risk management deficiencies during the 2013 and 2014 examination cycles. With respect to the 2012 MRAs on unsecured credit, the FHLBanks largely fixed internal control problems upon identification of the violations, and committed to further enhancements of controls or practices to address weaknesses identified by FHFA. FHFA will document, no later than March 31, 2014, our decisions, and how we came to them, about possible enforcement actions related to unsecured credit MRAs and any underlying regulatory violations we discover during the 2013 examination cycle.
FHFA's Oversight of Fannie Mae's 2013 Settlement with Bank of America August 2013	In 2013, FHFA approved a settlement of $11.6 billion between Fannie Mae and Bank of America. The settlement resolved the majority of Fannie Mae's outstanding representation and warranty claims. In reviewing the settlement, FHFA followed the settlement review policy and procedures it had established with regard to mortgage repurchases, mortgage insurance, and Private Label Mortgage Backed Securities (PLMBS) claims. However, FHFA lacked a settlement review policy for the resolution of compensatory fee claims or to agreements regarding the transfer of mortgage servicing. As a result, FHFA reviewed these aspects of the settlement without established processes and procedures Therefore, OIG recommends that FHFA should establish a formal review process for compensatory fee settlements and significant mortgage servicing rights (MSR) transfers.	FHFA agrees with OIG's recommendation to develop guidelines and formal review processes for both compensatory fee resolutions and significant MSR transfers. The guidelines and related processes will be developed by January 31, 2014.
Reducing Risk and Preventing Fraud in the New Securitization Infrastructure—August 2013	The objective of this evaluation was to assess risks and fraud threats in the securitization infrastructure under development and to address such risks by recommending countermeasures into the emerging policies, procedures, internal controls, and organizational structures as they are designed.	As information in this report can be used to exploit vulnerabilities and circumvent recommended countermeasures, the evaluation, and FHFA's response, will not be released to the public.

(continued on next page)

OIG Performance Evaluations		
Evaluation	**Summary**	**Summary of FHFA's Response**
Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses—September 2013	When mortgage servicers make payments for delinquent homeowners, Fannie Mae reimburses servicers for these payments through Accenture LPP, a third-party payment processer. OIG estimates that Accenture processing errors prompted Fannie Mae to overpay servicers $89 million in 2012—a 3.1 percent error rate. OIG recommends that FHFA ensure Fannie Mae takes the actions necessary to reduce Accenture processing errors. By curtailing processing errors, FHFA and Fannie Mae can reduce overpayments to servicers and, thereby, reduce waste. OIG also recommends that Fannie Mae's overpayment findings and reduction targets should be published following the requirements of the Improper Payments Elimination and Recovery Act (IPERA).	FHFA partially agrees with OIG's recommendations. FHFA agrees with OIG and will monitor reimbursement activities to limit overpayment by identifying the cause and developing reduction goals. FHFA will also monitor the Fannie Mae/Accenture repayment program. As commercial entities, the Enterprises are not subject to IPERA and not obligated to comply with the statute requirement of publishing Fannie Mae's overpayment findings and reduction targets.

FHFA Executive Committee on Internal Controls (ECIC) Meeting. FHFA photo.

Analysis of Financial Statements

Overview

FHFA prepares annual consolidated and combined financial statements for the agency and its Office of Inspector General in accordance with U.S. generally accepted accounting principles (GAAP) for Federal Government entities and subjects the statements to an independent audit to ensure their integrity and reliability in assessing performance.

FY 2013 Financial Statement Audit

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

Understanding the Financial Statements

The principal financial statements present FHFA's financial position, net cost of operations, changes in net position, and budgetary resources for fiscal years 2013 and 2012. Financial statements and notes for fiscal years 2013 and 2012 appear on **pages 104–128**. Highlights of the financial information presented in the principal financial statements are shown below.

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Financial Statements Summary

FIGURE 24: Condensed Balance Sheets

Condensed Balance Sheets (Dollars in Thousands)	FY 2013	FY 2012	Percent Change
Fund Balance with Treasury	$ 15,914	$ 20,998	(24)%
Investments	$ 71,907	$ 77,420	(7)%
Accounts Receivable, Net	$ 14	$ 13	8%
Property, Equipment, and Software, Net	$ 39,426	$ 45,528	(13)%
Prepaid Expenses	$ 851	$ 840	1%
Total Assets	**$ 128,112**	**$ 144,799**	**(12)%**
Accounts Payable - Intragovernmental	$ 1,637	$ 766	114%
Other Intragovernmental Liabilities	$ 1,406	$ 2,727	(48)%
Accounts Payable	$ 9,546	$ 9,728	(2)%
Unfunded Leave	$ 11,175	$ 10,485	7%
Deferred Lease Liability	$ 24,805	$ 23,917	4%
Other Liabilities	$ 3,026	$ 6,503	(53)%
Total Liabilities	**$ 51,595**	**$ 54,126**	**(5)%**
Cumulative Results of Operations	$ 76,517	$ 90,673	(16)%
Total Net Position	**$ 76,517**	**$ 90,673**	**(16)%**
Total Liabilities and Net Position	**$ 128,112**	**$ 144,799**	**(12)%**

Condensed Net Costs **(Dollars in Thousands)**	FY 2013	FY 2012	Percent Change
Gross Cost	$ 249,971	$ 217,501	15%
Less: Earned Revenue	$ 229,390	$ 225,933	2%
Net (Income from)/Cost of Operations	**$ 20,581**	**$ (8,432)**	**(344)%**

Overview of Financial Position

The Balance Sheet

The Balance Sheet presents, as of the end of the fiscal year, the recorded value of assets and liabilities retained or managed by FHFA. The difference between the assets and liabilities represents FHFA's net position.

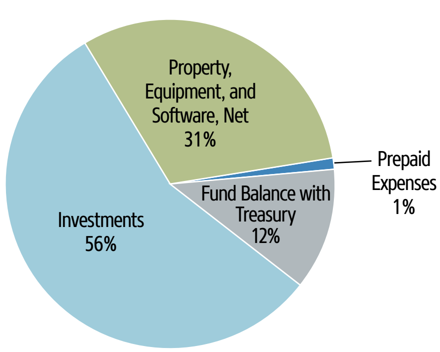
Assets

The Balance Sheet reflects total assets of $128.1 million, a 12 percent decrease from FY 2012. Figure 25 summarizes FY 2013 total assets by component. FHFA's distribution of assets remains largely unchanged from FY 2012.

When grouped together, Investments and Property, Equipment, and Software comprise 87 percent and 85 percent of total assets for 2013 and 2012, respectively. Investments remain FHFA's largest asset class, representing 56 percent of total assets. FHFA invests in U.S. Treasury securities, which are normally held to maturity and carried at amortized cost. Investments equaled $71.9 million at fiscal year-end and decreased 7 percent from FY 2012. The second largest asset class is Property, Equipment, and Software at $39.4 million as of September 30, 2013, or 31 percent of FHFA's total assets.

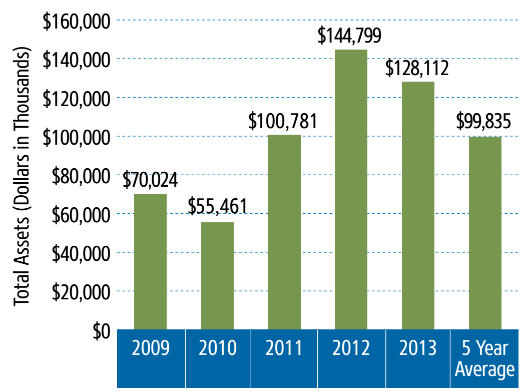
The remainder of FHFA's assets is comprised of Fund Balance with Treasury, accounts receivable (which is less than 1 percent), and prepaid expenses.

FIGURE 25: Summary of Total Assets – FY 2013



The annual trend in FHFA's total assets for FY 2009 through FY 2013 is presented in Figure 26. FHFA's total assets have almost doubled since FY 2009 due to leasehold improvements and furniture, fixtures, and equipment purchases associated with FHFA's new location at Constitution Center, the addition of the Inspector General's Office, and an increase in FHFA's overall budgetary resources.

FIGURE 26: Trend in Total Assets FY 2009–2013



Liabilities

As of September 30, 2013, FHFA's total liabilities amounted to $51.6 million, a 5 percent decrease from FY 2012. Figure 27 breaks down the FY 2013 total liabilities by component. Deferred Lease Liability continues to be the largest component of total liabilities at 48 percent. The next largest liability, Unfunded Leave, amounted to $11.2 million.

FHFA's Accounts Payable and Other Liabilities equal $15.6 million at fiscal year-end, down 21 percent from FY 2012. The annual trend in total liabilities for FY 2009 through FY 2013 is presented in Figure 28. Since FY 2009, FHFA's total liabilities have been consistent with the exception of FY 2010 and FY 2011. The increase is associated with the increase in budgetary resources.

FIGURE 27: Summary of Total Liabilities – FY 2013

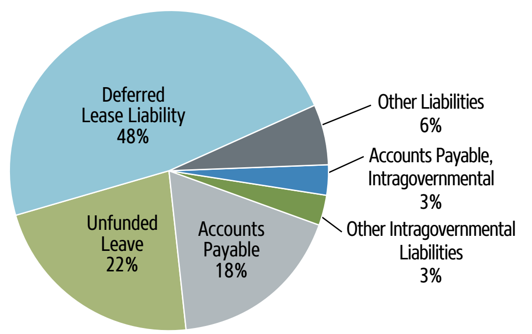
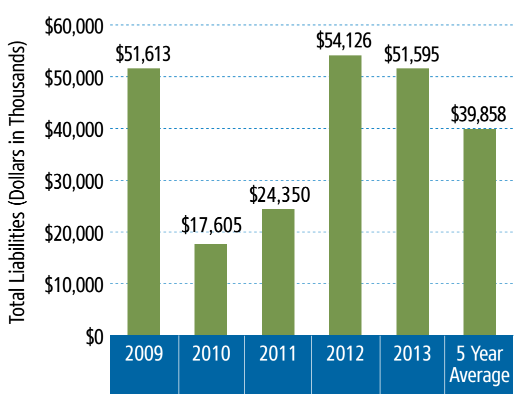


FIGURE 28: Trend in Total Liabilities – FY 2009–2013



Net Position

FHFA's net position of $76.5 million as of September 30, 2013 represents the cumulative net excess of FHFA's revenue over the cost of operations since inception.

Statement of Net Cost

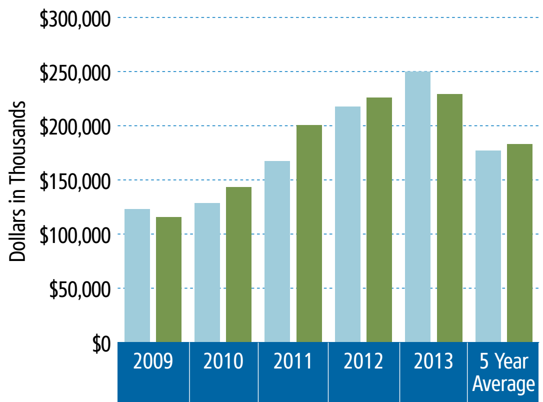
The Statement of Net Cost presents the components of FHFA's net cost of operations, which is the gross cost incurred less any revenues earned.

Pursuant to HERA, FHFA was established to supervise and regulate the 14 housing GSEs. The regulated entities include Freddie Mac, Fannie Mae and the 12 FHLBanks. FHFA tracks resource allocations and program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. The Strategic Goals (1 – Safety and Soundness; 2 – Stability, Liquidity, and Access; 3 – Conservatorship; and 4 – Prepare for the Future) guide program offices to carry out FHFA's vision and mission. FHFA has a Resource Management Strategy, which is distributed proportionately to Strategic Goals 1–4 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA-OIG allocated their costs to FHFA's Resource Management Strategy.

FHFA moved from the three strategic goals presented in fiscal year 2012 (1 – Safety and Soundness; 2 – Affordable Housing; 3 – Conservatorship) to the four strategic goals presented this year as the result of FHFA's new Strategic Plan: Fiscal Years 2013-2017. FHFA's Strategic Plan builds on the Conservatorships Strategic Plan, which the Acting Director presented to Congress in February 2012. Strategic Goal 1 is the only goal that reflects the same activities in both fiscal year 2012 and 2013. The activities for the remaining strategic goals differ from fiscal year 2012 to 2013. Fiscal year 2012 activities under Strategic Goal 2 are now distributed across Strategic Goals 2 and 4. Fiscal year 2012 activities for Strategic Goal 3 are now reported under Strategic Goals 3 and 4. Because the new and old strategic goals are not equivalent, fiscal years 2013 and 2012 Consolidated Statements of Net Cost are presented separately.

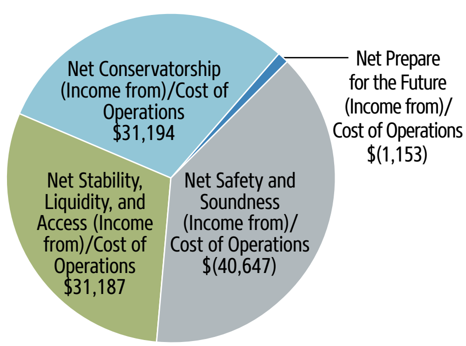
FHFA's net cost of operations is the revenue collected during the current fiscal year (assessments collected from the regulated entities, interest earned on investments, and funds collected from reimbursable agreements) less gross costs (all funds expended during a fiscal year regardless of when the funds were obligated). The net cost of operations in FY 2013 for FHFA totaled $20.6 million as compared to -$8.4 million net revenue in FY 2012. FHFA's gross costs exceeded earned revenue for FY 2013. However, earned revenue exceeded gross costs in FY 2012. The five-year trend in FHFA's gross costs and revenue from FY 2009 through 2013 is presented in Figure 29. Figure 30 displays the breakdown of net cost of operations by strategic goal for FY 2013.

FIGURE 29: Trend Gross Costs and Revenue



	2009	2010	2011	2012	2013	5 Year Average
Gross Costs	$122,816	$128,564	$167,401	$217,501	$249,971	$177,251
Revenue	$155,709	$143,202	$200,783	$225,933	$229,390	$183,003

FIGURE 30: Net Cost of Operations by Strategic Goal – FY 2013



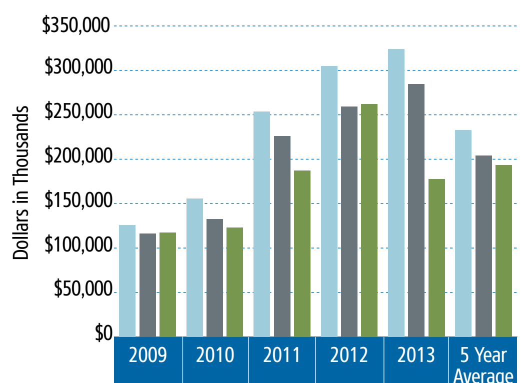
Statement of Changes in Net Position

The Statement of Changes in Net Position presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. Financing sources increase net position. FHFA's financing source is imputed financing from costs absorbed on FHFA's behalf by other Federal agencies. Net income from/cost of operations impacts net position. FHFA's cumulative results of operations for the period ending September 30, 2013 decreased $14.2 million.

Statement of Budgetary Resources

This statement provides information about the budgetary resources available to FHFA, the status of these resources and the outlay of budgetary resources for the years ending September 30, 2013 and 2012. FHFA's budgetary resources include unobligated funds carried forward, recoveries of prior year obligations, assessment collections from the regulated entities, and spending authority from offsetting collections. The statement shows that FHFA had $324.1 million in total budgetary resources for the 12 months ended September 30, 2013. The six percent increase in budgetary resources is the result of an increase in mission costs. Obligations incurred (includes amounts of orders placed, contracts awarded, and services received) increased 10 percent to $284.7 million. Gross outlays (actual payments made) increased six percent to $277.6 million. FHFA's five-year trend in budgetary resources, obligations incurred, and gross outlays is reflected in Figure 31.

FIGURE 31: Trend in Budgetary Resources and Obligations Incurred – FY 2009–2013



	2009	2010	2011	2012	2013	5 Year Average
Budgetary Resources	$125,908	$155,551	$253,568	$304,635	$324,123	$232,757
Obligations Incurred	$116,251	$132,808	$225,896	$259,100	$284,684	$203,748
Gross Outlays	$117,427	$122,948	$186,945	$262,252	$277,649	$193,444

Source of Funds

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

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 twelve 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. Assessments are paid semiannually on October 1 and April 1. FHFA collected assessments of $225.4 million during FY 2013, which included a $38.1 million assessment for costs related to the operations of the Office of Inspector General.

Limitations of the Financial Statements

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

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Analysis of Systems, Controls and Legal Compliance

Management Assurances

Federal Managers' Financial Integrity Act

During FY 2013, FHFA adhered to the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls (ECIC) met quarterly to oversee internal controls and provide recommendations to the FHFA Acting Director on the effectiveness of FHFA's internal controls.

In 2013, the ECIC members were the Chief Operating Officer who served as the Chairman, the Chief Financial Officer who served as the Vice-Chairman, the Chief Information Officer, the Deputy Director for Enterprise Regulation, the Deputy Director for Bank Regulation, the Deputy Director for Supervision Policy and Support, the Deputy Director for Housing Mission and Goals, the General Counsel, the Deputy Director of the Office of Conservatorship Operations, and the Deputy Director Office of Strategic Initiatives. The Chairman and Vice Chairman of the ECIC invited other FHFA executives and managers when appropriate. The ECIC also established senior assessment teams to review specific areas when needed.

During FY 2013, pursuant to its obligations under OMB Circular A-123, FHFA monitored and assessed the following three areas:

Reliability over Financial Reporting

FHFA's Office of Budget and Financial Management assessed the agency's financial reporting controls according to the requirements outlined in OMB Circular A-123, Appendix A.

Compliance with Laws and Regulations

Assessment teams from FHFA divisions and offices identified the significant laws and regulations that relate to the operations for their respective offices. Assessment teams documented the actions that demonstrated compliance, and the agency's Office of General Counsel reviewed all submissions.

Effectiveness and Efficiency of Operations

Assessment teams from FHFA divisions and offices reviewed controls over operations using the criteria outlined in the GAO Internal Control Management and Evaluation Tool. Division and office managers and the Office of Budget and Financial Management reviewed the reports of the assessment teams.

The ECIC reviewed documentation from all three areas. In compliance with the FMFIA requirements, the FHFA Acting Director, on the basis of a recommendation from the ECIC, provided reasonable assurance that internal controls over the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and financial reporting as of September 30, 2013 were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

The FHFA-OIG began operation in mid-October 2010 and adhered to the internal control requirements of FMFIA and the guidance provided by OMB Circular A-123. In order to ensure compliance with these requirements, the FHFA-OIG formed an ECIC and established a senior assessment team headed by the Chief of Staff to assess, among other things, the internal controls of the FHFA-OIG. The assessment team included participants from each office within the FHFA-OIG. Based on its review of the internal control assessments, the FHFA-OIG ECIC provided reasonable assurance that FHFA-OIG offices have developed and maintained effective internal controls for FY 2013, and no significant deficiencies or material weaknesses were identified.

The Office of Counsel (OC), under the Chief Counsel's direction, is FHFA-OIG's principal authority on legal matters pertaining to FHFA-OIG activities, duties, and authorities. The OC works to ensure that all FHFA-OIG activities are conducted in accordance with applicable legal requirements. Starting with the creation of FHFA-OIG in mid-October 2010, the OC has developed rules, policies, and procedures to ensure full FHFA-OIG compliance with such requirements. Although these efforts continue, no FHFA-OIG office identified substantive deviations from full compliance with those legal authorities to which it is subject. Based on these factors and the controls assessments performed by each FHFA-OIG office, the FHFA-OIG ECIC members determined that the FHFA-OIG's A-123 efforts provide reasonable assurance that FHFA-OIG complies with laws and regulations applicable to FHFA generally and to FHFA-OIG specifically. Therefore, the FHFA-OIG ECIC recommended that the Inspector General sign an assurance statement to the FHFA Acting Director recommending an unqualified statement of assurance relative to the three areas assessed by the FHFA-OIG: internal control over financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations.

Federal Management Information Systems and Strategy

Section 1106(g)(3) of HERA requires FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FHFA, including FHFA-OIG, uses the Bureau of Fiscal Services for its accounting services and that agency's financial management system (FMS) which includes (1) a core accounting system—Oracle Federal Financials; (2) four feeder systems—PRISM (procurement), GovTrip (travel), IPP (payments), and Citidirect (charge card); (3) a reporting system—Discoverer; and (4) an inventory tracking system. FHFA is responsible for overseeing the Bureau of Fiscal Services' performance of accounting services for the agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of Fiscal Services. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of HERA Section 1106(g) (3). FHFA also uses the National Finance Center, a service provider within the Department of Agriculture, for its payroll and personnel processing. FHFA has streamlined accounting processes by electronically interfacing data from charge cards, investment activities, the GovTrip travel system, the PRISM procurement system, the IPP payments system, and the National Finance Center payroll system to FMS.

Federal Information Security Management Act

Title III of the Electronic Government Act of 2002, commonly referred to as the Federal Information Security Management Act (FISMA), requires all Federal agencies to develop and implement an agency-wide information security program. The program provides a framework to protect the agency's information, operations, and assets.

FHFA's Information Security Program activities during FY 2013 continue to reflect improvements of the Agency's continuous monitoring program including the increased use of automated tools. The continuous monitoring program requires FHFA to proactively monitor the security posture of its information technology infrastructure through the implementation of operational, management, and technical controls, including automated security tools and supplemental resources for monitoring activities. These tools and activities include the FHFA Security Assessment and Authorization (SA&A) process for evaluating information systems before they become operational; reviewing system logs and configuration management activities; and conducting periodic vulnerability scans.

Other FY 2013 information security program activities include enhancing the access control process, updating the vulnerability management program, conducting independent penetration testing, updating information security policies and procedures, and performing annual security control assessments of FHFA information systems, including the Agency's Financial Management System (FMS). FHFA developed and distributed monthly non-technical cyber security newsletters to all employees to enhance user awareness and conducted a security symposium to provide security awareness training to FHFA employees and contractors. FHFA also addressed security-related weaknesses for systems noted in the prior year FISMA review and mitigated vulnerabilities identified during other SA&A activities.

FHFA-OIG operates its own network, systems and related information security programs that are independent from those of the agency.

The FHFA-OIG is required to evaluate the agency's information security program annually and report the results to OMB as required by FISMA. The FHFA-OIG contracted with an independent external audit firm to conduct the FY2013 FISMA audit of the FHFA information security program, which was completed in October 2013. In addition, the FHFA-OIG elected to have an inaugural independent evaluation of its information security program performed consistent with FISMA. This evaluation was performed by the independent external audit firm as well.

For the FHFA information security program, the external auditor concluded that the program was generally compliant with FISMA, other Federal legislation, and applicable OMB guidance, as well as with National Institute of Standards and Technology (NIST) special publications. The independent external auditor identified 15 recommendations to assist FHFA in strengthening its information security program. During FY 2013, FHFA closed 16 of 20 prior year FISMA recommendations and has a project in place to remediate the remaining recommendations.

For the FHFA-OIG information security program, the external auditor identified four recommendations to help the FHFA-OIG to:

1) respond to issues that, in its opinion, collectively represented a significant deficiency as of June 30, 2013; and

2) strengthen its information security program.

The OIG has a project in place to remediate the four recommendations that is in its final stages. The external auditor noted that the FHFA-OIG's relatively new information security program continued to mature during FY 2013 and that the FHFA-OIG has taken steps to mitigate certain risks identified in its program. In particular, the external auditor reported that throughout the course of the FISMA evaluation, the FHFA-OIG's Chief Information Officer took action to remediate control deficiencies and, by the conclusion of the independent evaluation, reported that corrective action to strengthen security controls was largely completed as of September 30, 2013.

The corrective actions taken by the FHFA and the FHFA-OIG will be reviewed and verified by the auditor during the FY 2014 FISMA audits. The independent external auditor concluded that, overall, a significant deficiency did not exist for FHFA when the agency and the FHFA-OIG results were consolidated for FISMA reporting purposes.

Management's Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, the FHFA must report information on final action taken by management on certain audit reports. The tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period October 1, 2012, through September 30, 2013.

TABLE 5: Management Report on Final Action on Audits with Disallowed Costs for Fiscal Year 2013

Audit Reports		Number of Reports	Disallowed Costs
Dollars in Thousands			
A.	Management decisions – Final action not taken at beginning of period	0	$0
B.	Management decisions made during the period	1	$256,343
C.	Total reports pending Final action during the period (A and B)	1	$256,343
D.	Final action taken during the period:		
	1. Recoveries:		
	(a) Collections & offsets	0	$0
	(b) Other	0	$0
	2. Write-offs	0	$0
	3. Total of 1(a), 1(b), & 2	0	$0
E.	Audit reports needing final action at the end of the period	1	$256,343

TABLE 6: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for Fiscal Year 2013

Audit Reports		Number of Reports	Disallowed Costs
Dollars in Thousands			
A.	Management decisions – Final action not taken at beginning of period	0	$0
B.	Management decisions made during the period	1	$105,000
C.	Total reports pending Final action during the period (A and B)	1	$105,000
D.	Final action taken during the period:		
	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(a), 1(b), & 2	0	$0
E.	Audit reports needing final action at the end of the period	0	$0

TABLE 7: Audit Reports without Final Actions But with Management Decisions over One Year Old for Fiscal Year 2013

Management Action in Process		
Report No. and Issue Date	**Recommendation**	**Management Action**
EVL 2011-06, Evaluation of the Federal Housing Finance Agency's Oversight of Freddie Mac's Repurchase Settlement with Bank of America, September, 27, 2011	The OIG recommended that FHFA and its senior management must promptly act on the significant concerns raised about the loan review process to ensure that Freddie Mac is maximizing its repurchase claim recoveries.	The FHFA continued to complete corrective actions to address the recommendations, including continuing to work with Freddie Mac on repurchase settlement processes and approvals. However, the actions to fully address the recommendations are still underway at the end of the fiscal year. Expected Completion Date: FHFA will complete monitoring of the repurchase settlement process in fiscal year 2014.
AUD-2012-009, CliftonLarsonAllen LLP's Audit of FHFA's Controls Over Sensitive and Proprietary Information Collected and Exchanged with the Financial Stability Oversight Council, Sepember 28, 2012	The OIG conducted a performance audit to evaluate FHFA's controls and protocols over sensitive and proprietary information collected and exchanged with the Financial Stability Oversight Council (FSOC). The report included six recommendations to enhance the controls over sensitive information.	The FHFA completed corrective action on four of the six recommendations. Two remaining corrective actions are in-process and scheduled to be completed by the end of the calendar year. Expected Completion Date: FHFA will complete corrective actions by December 31, 2013.

FHFA's Statement of Assurance

Federal Housing Finance Agency

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www.fhfa.gov

November 18, 2013

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2013

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

FHFA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013 was operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

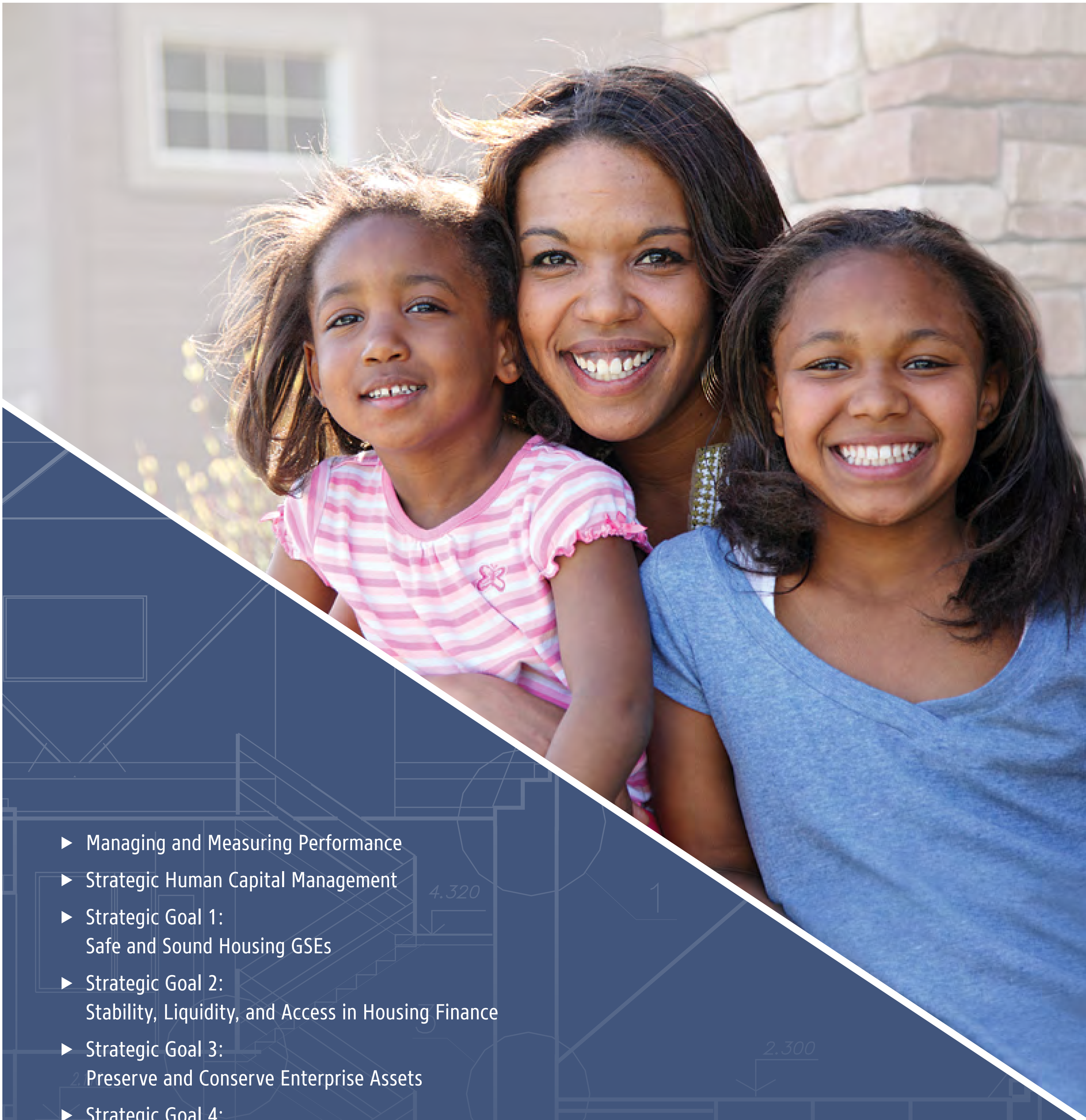
In addition, FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2013 were operating effectively and no material weaknesses were found in the design and operation of the internal controls over financial reporting.

In accordance with the requirements of FMFIA, FHFA's financial management systems are substantially in compliance with the requirements for federal financial management systems as presented in A-127, Financial Management Systems as of September 30, 2013.

Edward J. DeMarco

Edward J. DeMarco
Acting Director

Performance Section



Managing and Measuring Performance

The Performance Section is organized by the strategic goals described in FHFA's new *Strategic Plan for FHFA for Fiscal Years 2013–2017*. These four strategic goals provide long-term direction to the agency and define how the accompanying performance goals will enable FHFA to accomplish its mission.

The Performance Section also includes a brief discussion of each performance goal; the associated targets; the results of the performance measures for the current fiscal year, as well as two prior fiscal years (if the data are available); a discussion of how the agency verifies performance data; factors describing why performance measures were not met; and, finally, our plans to improve our performance.

Strategic Planning

During FY 2012, FHFA released a new *Strategic Plan for FHFA for Fiscal Years 2013–2017*. This new strategic plan refined three of the existing strategic goals and added a fourth strategic goal. During FY 2013, FHFA operated under this new strategic plan which incorporates concepts from the *Strategic Plan for Enterprise Conservatorships* (SPEC) that was issued in February 2012. The SPEC outlined three broad objectives: (1) *Build* a new infrastructure for the secondary mortgage market; (2) *Contract* the Enterprises' dominant presence in the marketplace by gradually simplifying and shrinking their operations; (3) *Maintain* foreclosure prevention activities and credit availability for new and refinanced mortgages. The SPEC, which is meant to underscore the accelerative steps FHFA is taking to meet its obligation as conservator of the Enterprises, is now effectively embedded in FHFA's overall Strategic Plan.

Relationship among FHFA's Strategic Goals

FHFA has four strategic goals that support the achievement of its mission. Strategic Goal 1 focuses on the supervision of the regulated entities and is the foundation that supports achievement of the remaining three Strategic Goals. A fundamental objective of supervision is to evaluate a regulated entity's condition and practices to ensure that it has the right processes, controls, resources and management in place to achieve its objectives while maintaining safe and sound operations. If FHFA, either through its role as regulator or conservator, directs the regulated entities to take action to help achieve Strategic Goals 2 through 4, supervision will work to ensure that the regulated entities are able to do so in a safe and sound manner.

Strategic Goal 2 focuses on the important roles that the housing GSEs play in housing finance, particularly on ensuring they fulfill their core missions. Strategic Goal 3 is concentrated on the Conservatorships of Fannie Mae and Freddie Mac and on FHFA's statutory responsibility, as the conservator for each of the Enterprises, to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers. Finally, Strategic Goal 4 looks to the future of the housing finance system—post conservatorships of the Enterprises—and is drawn from the SPEC. The focus of this goal is on building a new infrastructure for the secondary market, contracting the government's presence in the market by encouraging more private sector participation, and improving the functioning of the market by promoting more efficient processes and greater transparency. Other areas of the SPEC are reflected within select measures under Strategic Goal 2 and Strategic Goal 3.

Performance Planning

FHFA's Annual Performance Plan establishes specific outcomes to accomplish the strategic goals. The annual plan also outlines performance measures used to track achievement of each goal and describes the means and strategies that will be utilized. Performance measures also highlight the achievement level towards the overarching performance goal. In FY 2013, FHFA had four strategic goals, supported by nine performance goals, and 25 performance measures. Figure 32 shows the hierarchy of FHFA's performance goals and measures. It also illustrates how FHFA proposes to dedicate its resources to accomplish its mission.

FHFA employs a numbering system to link performance measures to strategic and performance goals. For each performance measure, the first digit represents the strategic goal it supports, the second digit is the performance goal, and the third digit is the performance measure related to that goal. For example, performance measure 1.1.1 supports strategic goal 1 and performance goal 1.1—it is the first performance measure under that performance goal.

FIGURE 32: FHFA's Goal Hierarchy

Performance Budget

The annual performance budget describes the costs, systems, and initiatives associated with the achievement of each goal. The agency accomplishes its mission primarily by:

- Examining the regulated entities;
- Monitoring their progress in completing their remediation plans;
- Assessing their capital adequacy;
- Preserving and conserving Enterprise assets;
- Setting and enforcing affordable housing goals;
- Monitoring credit and financial market conditions;
- Rulemaking; and
- Researching and analyzing the regulated entities and the housing markets.

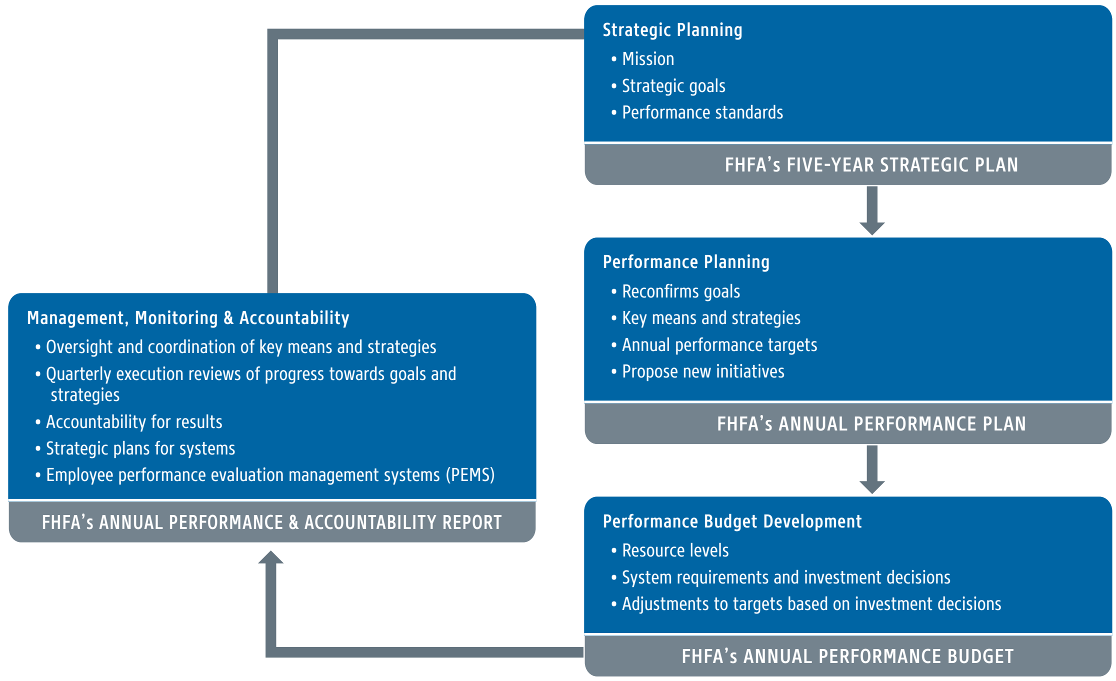
During FY 2013, FHFA functioned with a budget of $197.4 million and by the end of the year had 597 employees.

Performance Reviews

Developing the Annual Performance Plan is an iterative process and includes all FHFA offices. Strategic and performance goals are developed during the planning process and approved by the Acting Director. Senior executive leaders develop performance measures, as well as the means and strategies that describe how FHFA is going to measure performance. Performance results are monitored and validated throughout the year to determine the success of program activities.

During FY 2013, senior executives and supporting staff submitted quarterly reports on progress they made toward achieving performance measures for which they were accountable. The agency used the quarterly reports as the basis for developing the Performance and Accountability Report. These reports were reviewed and analyzed by the Performance Management and Strategic

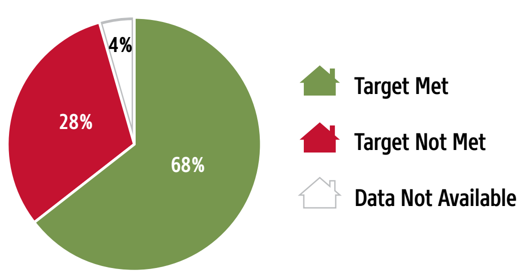
FIGURE 33: FHFA's Performance Management Cycle



Planning staff to ensure the accuracy and validity of information being reported, and verify progress toward achieving planned performance levels. FHFA's Director then held quarterly performance tracking meetings with senior executives to review accomplishments and make necessary adjustments. See Figure 33 for an outline of FHFA's performance management cycle.

During FY 2013, FHFA worked to achieve 25 performance measures and targets. Figure 34 depicts the results of FHFA's efforts in meeting its targets for FY 2013.

FIGURE 34: FY 2013 Performance Measures



Validation and Verification

Information reported in this *FY 2013 Performance and Accountability Report* is complete and reliable. The sources of data are identified and verified to ensure accuracy, reliability, and completeness. Each office maintains checks and balance systems that are reflective of whether their performance measures are more subject to external influences (factors not under FHFA's control) versus internal influences (factors under FHFA's control). The data are created internally, reported in the agency's performance tracking system, and reviewed and approved each quarter by the agency's senior executive leadership. Additionally, FHFA's staff documents the procedures used to obtain and validate the data to ensure the accuracy and accountability of the information.

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

- Definition of the performance measure

- Data source
- Process for calculating or tabulating performance data
- Process for validation and verification
- Responsible manager
- Location of documentation

Data related to supervision activities are collected through FHFA's supervision process and reviewed by FHFA management.

Strategic Human Capital Management

FHFA's Human Capital strategic plan, programs, and operations fully support the agency's mission, values and performance goals. FHFA's workforce is its most valuable resource. This makes attracting, hiring, developing, rewarding, and retaining a diverse, knowledgeable staff with cutting-edge professional skills critical to the overall success of the agency. The agency uses FHFA's Human Capital Balanced Scorecard Methodology and Strategy Map, a strategic framework that aligns human capital management to the agency's overarching performance goals and objectives.

Dynamic human capital management programs are either in place or being developed that deliver ready and capable employees to lead FHFA, carry out its mission, and achieve agency-level performance goals. FHFA's Human Capital Management Balanced Scorecard and Strategy Map framework contains 21 strategic objectives that integrate innovative human capital management programs, thought leadership, and operational support to FHFA's employees, managers, and executives to ensure that the agency's mission is achieved.

Strategic Goal 1: Safe and Sound Housing GSEs

In FY 2013, FHFA implemented improvements to its examination and oversight functions. FHFA ensured the GSEs operated in a safe manner and that the FHLBanks were adequately capitalized. As part of the agency's supervisory responsibility, FHFA conducted examinations to assess the risk of the GSEs' portfolios as well as their operations. FHFA also increased the effectiveness of its supervisory program by developing a common examination program and rating system for the GSEs.

PERFORMANCE GOAL 1.1 Identify risks and require timely remediation of weaknesses			
PERFORMANCE MEASURE 1.1.1 **Develop a written supervisory strategy for each regulated entity that effectively identifies risks and ensures corrective actions are implemented**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	December 1, 2012
Performance			FHFA developed supervisory strategies for each Federal Home Loan Bank and the Office of Finance within the required time frames during FY 2013. However, strategies for Fannie Mae and Freddie Mac were completed on January 7, 2013, which falls short of the official deadline of December 1, 2012.
Performance Results Key: Goal Fulfillment			Target Not Met

PERFORMANCE MEASURE 1.1.2 * Percentage of examination findings remediated since the last exam or in accordance with an approved plan			
	FY 2011	FY 2012	FY 2013
Target	90 percent quarterly	90 percent quarterly	100 percent
Performance	All MRAs were open fewer than 20 days. There were 27 total conclusion letters in FY 2011. All of them were resolved or were in the process of being resolved in accordance with a remediation plan acceptable to FHFA within 90 calendar days of recognition. FHFA met this target at 100 percent each quarter of FY 2011.	All MRAs were resolved or were in the process of being resolved in accordance with a remediation plan acceptable to FHFA within 120 calendar days of recognition. FHFA met this target by at least 99 percent each quarter of FY 2012.	As of September 30, 2013, there were 69 Matters Requiring Attention (MRAs) at least 60 days old at the Enterprises. All 69 MRAs had remediation plans to which FHFA did not have an objection. FHFA met its target of 100 percent for the Enterprises and FHLBanks FY 2013. Out of 104 MRAs reviewed, only one was unresolved at the FHLBanks (representing only one percent of total MRAs reviewed in FY 2013). One FHLBank did not adequately address all aspects of one of its 2012 MRAs. FHFA expects the FHLBank to remediate this MRA during 2014. FHFA therefore did not meet its target of 100 percent, scoring only 99 percent for FY 2013.
Performance Results Key: Goal Fulfillment	Target Met	Target Met	Target Not Met

* *This is a key performance measure.*

PERFORMANCE SECTION

Synopsis of Performance Goal 1.1: Identify risk and require timely remediation of weaknesses

Through its supervisory activities, which include onsite examinations, FHFA ensured the Enterprises and FHLBanks operated in a safe and sound manner and abstained from excessive risk. FHFA developed a supervisory plan for each of the regulated entities based upon the previous year's supervisory effort and additional information about emerging risks and new activities at the entities. FHFA developed a supervisory plan for each FHLBank by the deadline set for each bank. FHFA missed its target by 16 days for Freddie Mac and approximately a month for Fannie Mae. FHFA completed its supervisory strategies and plans for Fannie Mae and Freddie Mac on January 7, 2013 and December 17, 2012 respectively. During FY 2013, FHFA focused its attention on resolving corrective action plans of the regulated entities. Supervision staff monitored risk exposures and sought to identify emerging risks. FHFA also conducted reviews of the financial condition at the GSEs.

As part of the improvements to its supervisory program, FHFA developed a rating system called CAMELSO which rates the **C**apital risk; **A**sset quality risk; **M**anagement risk; **E**arnings risk; **L**iquidity risk; **S**ensitivity to market risk; and **O**perational risk. The CAMELSO system became effective in January 2013 and will be used as a common rating system for the regulated entities going forward. As the agency improved its examination controls and procedures for identifying risks for the GSEs, the Enterprises remediated all Matters Requiring Attention (MRAs) within 60 days, as required by FHFA. The FHLBanks remediated 99 percent (104 out of the 105) of their MRAs—one FHLBank failed to meet its target because of one unresolved MRA. FHFA will review the Bank's compliance with the re-issued MRA during FY 2014.

PERFORMANCE GOAL 1.2 Improve the condition of the regulated entities			
PERFORMANCE MEASURE 1.2.1 **Complete guidance of the implementation of the asset classification policy (2012-AB-02, April 2012) and ensure regulated entities established implementation plans**			
	FY 2011	**FY 2012**	**FY 2013**
Target	New Measure for FY 2013	New Measure for FY 2013	100 Percent
Performance			FHFA issued guidance to establish a standard methodology for classifying loans and real-estate, excluding investment securities. The agency prescribed the timing of asset charge-offs based on these classifications. To facilitate the regulated entities' implementation of the policy, FHFA established a working group to oversee the GSEs' preparation and execution of a plan to comply with the asset classification and recognition. 2013-AB-03 was issued on April 9, 2013.
Performance Results Key: Goal Fulfillment			**Target Met**

PERFORMANCE GOAL 1.2
Improve the condition of the regulated entities

PERFORMANCE MEASURE 1.2.2
Develop five new examination modules to guide examiners in reviewing and assessing the regulated entities

	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	March 31, 2013
Performance			FHFA completed 5 training modules. The following Modules were completed by March 29th, 2013: Default Legal Services, Managing Seller/Servicer Relationships, Single-Family Credit Loss Management, Single-family Mortgage Underwriting and Acquisitions, Third-party Relationship Management.
Performance Results Key: Goal Fulfillment			Target Met

PERFORMANCE MEASURE 1.2.3.
Conduct supervisory review of the Enterprises compliance process for tracking and executing conservatorship directives

	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	September 30, 2013
Performance			The examination teams conducted supervisory reviews to determine compliance with conservatorship directives. The Freddie Mac examination team completed its review, resulting in the issuance of examination findings. The Fannie Mae team ensured that the Enterprises complied with Prudential Management and Operations Standards (PMOS), FHFA's Letter of Instruction issued November 15, 2012, and with the Salary Freeze Directive. The FHFA-OIG has been monitoring the completion of supervisory reviews and will follow-up on completed activities.
Performance Results Key: Goal Fulfillment			Target Met

PERFORMANCE MEASURE 1.2.4
Increase retained earnings for each FHLBank

	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Total retained earnings at the end of the current fiscal year are greater than total retained earnings at the end of the prior fiscal year.
Performance			All 12 FHLBanks increased retained earnings during FY 2013. The retained earnings balance for each FHLBank as of September 30, 2013, represented an increase over its balance as of September 30, 2012. $11.7 billion in 2013, up 17 percent over $10 billion in 2012.
Performance Results Key: Goal Fulfillment			Target Met

Synopsis of Performance Goal 1.2: Improve the condition of the Regulated Entities

FHFA is responsible for evaluating and ensuring the safe and sound operation of the regulated entities. To provide better supervision, FHFA established examination procedures to assess risk exposures and controls. During FY 2013, FHFA focused its attention on loss mitigation and the core business operations of the Enterprises. FHFA met the FY 2013 goals for Performance Goal 1.2 and developed additional regulations and guidance in accordance with the *Consumer Protection Act of 2010* (Dodd-Frank Act).

FHFA completed guidance on the implementation of the asset classification policy and ensured that the regulated entities established satisfactory implementation plans. The FHFA exceeded its goal of creating five new examination modules to guide examiners in reviewing and assessing the regulated entities. FHFA completed 14 training modules in addition to complying with FHFA-OIG's recommendation to develop a Default Legal Services module.

FHFA reviewed risk-based directives and policies. An audit revealed that the Enterprises completed 19 processes specific to examinations and conservatorship directives to ensure controls are in place that govern compliance with directives issued by the agency. FHFA developed a list of outstanding and completed conservatorship regulatory orders, and monitored the process through an automated tracking system.

Finally, FHFA monitored retained earnings at each FHLBank. The Banks had adequate capital available to absorb losses and protect the principle balance on assets, and were able to increase their retained earnings by 17 percent over the time period of October 1, 2012 to September 30, 2013. The FHLBanks increased their retained earnings from $10 billion in FY 2012 to $11.7 billion in FY 2013.

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

During FY 2013, the housing market rebounded with increased sales volume and house prices. Homeowners with underwater loans continued to refinance with lenders through the Home Affordable Refinance Program (HARP) which allowed them to benefit from historically low interest rates. The agency continued to encourage the Enterprises to actively pursue foreclosure prevention activities. In cooperation with the Financial Stability Oversight Council (FSOC) and its member agencies, FHFA worked diligently to categorize developing risks and mitigate systemic threats.

Some small, rural, and community-based lenders face challenges accessing the secondary mortgage market as the result of large bank aggregators reducing their participation in the correspondent channel over the past couple of years. FHFA and the GSEs continue to expand outreach to small and community-based lenders to explore alternative means of access to and participation in the mortgage market.

PERFORMANCE GOAL 2.1 Promote stability and mitigate systemic risk that could lead to market instability			
PERFORMANCE MEASURE 2.1.1 * **Number of refinances successfully completed through the Home Affordable Refinance Program (HARP) 2.0**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2012	Maintain the volume of HARP refinances as a percent of total refinances at 10 percent or higher	600,000
Performance		The volume of HARP refinances as a percent of total refinances during FY 2012 (through August 31, the most recent data available) was approximately 18 percent.	1,019,286 refinances were successfully completed through HARP during FY 2013 (through August 31, the most recent data available), exceeding the fiscal year target by 70 percent.
Performance Results Key: Goal Fulfillment		Target Met	Target Met

PERFORMANCE MEASURE 2.1.2 * **Number of foreclosure alternatives successfully completed**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	447,000
Performance			Improvement in the housing market and employment resulted in a lower number of delinquent loans. As a result, the Enterprise successfully completed 333,819 foreclosure alternatives instead of its goal of 447,000 in FY 2013.
Performance Results Key: Goal Fulfillment			Target Not Met

PERFORMANCE MEASURE 2.1.3 **Number of real estate owned (REO) dispositions in individual markets to promote recovery via existing and new distribution channels**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	353,000
Performance			Due to improvement in the housing market and employment, as well as delays in the foreclosure process, the number of REO acquisitions declined. As a result, the Enterprise successfully completed 220,364 REO dispositions instead of its goal of 353,000 in FY 2013.
Performance Results Key: Goal Fulfillment			Target Not Met

* *This is a key performance measure.*

Synopsis of Performance Goal 2.1: Promote stability and mitigate systemic risk that could lead to market instability

The lending community, FHFA, and the Enterprises worked together to increase participation in HARP by further streamlining the program and revising eligibility requirements to make them easier for borrowers to understand. As a result of these efforts, over one million homeowners were able to refinance their homes at significantly lower interest rates.

Improvements in the housing market and the broader economy, as evidenced by rising home values and lower unemployment during FY 2013, contributed to declines in the number of delinquent loans and ultimately in fewer Real Estate Owned (REO) acquisitions. This good news for the economy contributed significantly to FHFA missing its targets for performance measures 2.1.2 and 2.1.3. FHFA developed its FY 2013 targets for these measures based on a continued downward trend in delinquencies and REO acquisitions.

Although FHFA missed its target for the number of foreclosure alternatives successfully completed, FHFA remains committed to helping borrowers stay in their homes whenever possible, and has worked with the Enterprises to develop programs focused on home retention. FHFA has demonstrated its commitment to home retention since the early days of the foreclosure crisis. In 2008, FHFA and the Enterprises launched a single common modification program known as Streamlined Modification Program in response to rising delinquencies, which served as the precursor to the Treasury's Home Affordable Modification Program (HAMP). Since then, FHFA and the Enterprises have provided key input to HAMP and strengthened servicing standards for delinquent mortgages. Further, in 2011, FHFA launched its Servicing Alignment Initiative (SAI) aimed at creating common, consistent, and simplified standards for managing and servicing delinquent loans. In 2012, FHFA focused on streamlining and standardizing the Enterprises Foreclosure Alternatives—Standard Short Sale and Standard Deed-in-Lieu. This year, FHFA and the Enterprises announced several home retention related enhancements, including:

- Streamlined Modification Initiative: StreamlinedMod responds to documentation challenges associated with traditional modifications. StreamlinedMod allows servicers to solicit certain eligible borrowers between 90 to 720 days delinquent with reduced documentation requirements.
- GSE HAMP extension: The Enterprises extended GSE HAMP to align with the Treasury HAMP program. The Enterprises also extended the Streamlined Modification Initiative to December 1, 2015, to correspond with the HAMP sunset date.
- Consumer Financial Protection Bureau (CFPB) Servicing Rule Implementation: The Enterprises issued servicing requirements in response to CFPB's final rules implementing the mortgage servicing provisions of the *Real Estate Settlement Procedures Act* and the *Truth in Lending Act*, as amended by Dodd-Frank in 2010. The updated servicing requirements relate to early intervention and communication with delinquent borrowers; alternatives to foreclosure and right of appeals; foreclosure referral and foreclosure suspension; and error resolution. The changes are effective January 10, 2014.

FHFA will continue to monitor the Enterprises' REO property disposition activities in 2014, and concentrate efforts on reducing REO acquisitions to minimize the impact on affected communities as well as on the Enterprises' risk exposure. FHFA will also adjust the target number of loan modifications, short sales and deeds-in-lieu goals to reflect current trends.

Despite FHFA's best efforts some homes will be foreclosed and enter the Enterprises' REO inventory. FHFA has directed the Enterprises to take all necessary and prudent steps to decrease the size of each Enterprise's REO property portfolios, while taking into account the state of the economy and housing market.

PERFORMANCE GOAL 2.2 Ensure liquidity in mortgage markets			
PERFORMANCE MEASURE 2.2.1 **Initiate the monthly mortgage survey**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Complete by Q4 2013
Performance			FHFA initiated a monthly mortgage survey.
Performance Results Key: Goal Fulfillment			Target Met

PERFORMANCE MEASURE 2.2.2 Inform the public through dissemination of FHFA research publications on housing and housing finance markets			
	FY 2011	FY 2012	FY 2013
Target	At least six	At least six	Produce six research publications during FY 2013
Performance	FHFA published two working papers, two mortgage market notes, one research paper, and one research report to Congress in FY 2011. These publications are posted on the agency's web site. This measure pertains to the number of such publications released in FY 2011.	FHFA published two working papers, two mortgage market notes, and two research papers during FY 2012. These publications are posted on the agency's web site.	FHFA completed six research studies during FY 2013, which included mortgage market notes, working papers, and research papers suitable for publication.
Performance Result	Six	Six	Six
Performance Results Key: Goal Fulfillment	Target Met	Target Met	Target Met

Synopsis of Performance Goal 2.2: Ensure liquidity in the mortgage markets

The National Mortgage Database (NMDB) survey of mortgages has been completed and FHFA is working with credit bureaus to collect information on borrowers who have entered the housing market since 1998. Additional historic loan data will be added to the NMDB on a quarterly basis during FY 2014 to assess risks.

During FY 2013, the agency conducted research and analysis leading to the production of six research papers and mortgage notes. FHFA's research and analysis provide useful information to the public as well as to examiners to enhance effective supervision. Research presented at conferences, published in trade journals, and available on the agency website include:

- Housing and Mortgage Markets in 2011, *www.fhfa.gov/PolicyProgramsResearch/Research/Pages/Housing-and-Mortgage-Markets-in-2011.aspx*
- Distressed Sales and FHFA House Price Index, *www.fhfa.gov/PolicyProgramsResearch/Research/Pages/Working-Paper-13-1.aspx*
- Generating Historically-Based Stress Scenarios Using Parsimonious Factorization, *www.fhfa.gov/PolicyProgramsResearch/Research/Pages/Working-Paper-13-2.aspx*
- Mortgage Market Note 13-1: A Study of First-Time Homebuyers, *www.fhfa.gov/PolicyProgramsResearch/Research/Pages/Mortgage-Market-Note-13-01.aspx*

PERFORMANCE SECTION

PERFORMANCE GOAL 2.3 Expand access to housing finance for diverse financial institutions and qualified borrowers			
PERFORMANCE MEASURE 2.3.1 * **Reduce variance in single-family guarantee fees charged to lenders that sell large versus small volumes of mortgages to the Enterprises**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Narrowing variance in fees at year ending June 30, 2013, from preceding year
Performance			FHFA's monitoring of risk-adjusted single family guarantee fees throughout the fiscal year showed a narrowing of the variance by year-end.
Performance Results Key: Goal Fulfillment			**Target Met**

PERFORMANCE GOAL 2.3.2 Expand access to housing finance for diverse financial institutions and qualified borrowers			
	FY 2011	FY 2012	FY 2013
Target	Establish baseline and set a stretch goal	Increase from prior year as included in the *2011 Annual Report to Congress*	Increase from prior year as included in the *2012 Annual Report to Congress*
Performance	FHFA analyzed past and existing contracts to determine its spending on contracts with minority-owned, women-owned, and disabled-person–owned businesses. A baseline amount and goal were established.	FHFA increased the number of contracts executed by 122 percent from prior year results during FY 2012.	Total dollar amount awarded to women- and minority-owned businesses totaled $7,030,933 in FY 2013, down from $7,301,036 in FY 2012.
Performance Results Key: Goal Fulfillment	**Target Met**	**Target Met**	**Target Not Met**

PERFORMANCE GOAL 2.3.3 Increase number/dollar amount of business awarded to women and minority owners by the entities FHFA regulates			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Increase from prior year as included in the Annual Activity Reports submitted by the Regulated Entities Pursuant to 12 CFC 1207.23
Performance			FHFA will not have data to evaluate this measure until the second quarter of FY 2014.
Performance Results Key: Goal Fulfillment			**Data not available**

* *This is a key performance measure.*

Synopsis of Performance Goal 2.3: Expand access to housing finance for diverse financial institutions and qualified borrowers

FHFA worked with the Enterprises to reduce disparities in guarantee fees. As a result, FHFA met its goal of reducing the variance in single-family guarantee fees charged to lenders that sell large volumes of loans versus those that sell small volumes. FHFA provided oversight for the FHLBanks' Affordable Housing Program and Community Investment Program, which created conditions to enable more private mortgage participants to take part in the affordable housing market.

Also during FY 2013, FHFA worked to increase the number and value of awards that went to women and minority-owned businesses. The agency did not meet this goal in part because in FY 2012, FHFA had a unique opportunity to meet its new office furniture needs by contracting with a minority-owned firm. This was a one-time event that greatly increased the total dollars awarded to minority and women-owned firms in FY 2012. As a result, the dollar amount awarded decreased in FY 2013 from the spike in awards in FY 2012.

The agency is unable to report whether it met its goal of increasing the number and dollar amount of business awarded to minorities doing business with the GSEs due to the unavailability of data until the second quarter of FY 2014. FHFA will access the data once it comes available and, should results fall short of the target, will make adjustments to the women and minority-owned businesses program for the GSEs to meet diversity goals.

Strategic Goal 3: Preserve and Conserve Enterprise Assets

FHFA's objective under this goal is to minimize the taxpayers' exposure to loss and protect the Enterprises' assets. FHFA pursued this objective by increasing the Enterprises' single-family guarantee fee, sustaining the Enterprises' business operations, and gradually reducing the Enterprises' roles in the housing market.

The agency launched initiatives to recover losses resulting from the housing crisis of 2008 and avoid further liability to the Enterprises. FHFA sought to reduce the amount of outstanding repurchases and worked to reduce the number of loans originated with manufacturing defects due to poor underwriting standards. Finally, FHFA undertook the necessary actions to reduce the number of operational loss events at the Enterprises.

PERFORMANCE GOAL 3.1 Minimize taxpayer losses during the Enterprises' conservatorships			
PERFORMANCE MEASURE 3.1.1 * **Reduce cross-subsidization in Enterprise single-family guarantee fees**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Year-ending June 30, 2013, compared to preceding year
Performance			FHFA reduced cross-subsidization for the Enterprises' single-family guarantee fees by an average of 2.11 bps (weighted by UPB) for the year-ending June 30, 2013 compared to the preceding year.
Performance Results Key: Goal Fulfillment			**Target Met**

PERFORMANCE GOAL 3.1.2 * **Undertake and defend legal actions that recover upon losses to avoid liability to the GSEs**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Pursue legal actions where available and cost effective
Performance			FHFA reached several legal settlements in multiple cases involving mortgage backed securities sold to the Enterprises before the 2008 financial crisis, and obtained multi-billion dollar settlements against Union Bank of Switzerland (UBS) and Bank of America, among others.
Performance Results Key: Goal Fulfillment			**Target Met**

PERFORMANCE GOAL 3.1.3 **Reduce the amount of current outstanding repurchases**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Reduction of 50 percent
Performance			Freddie Mac did not meet the target but Fannie Mae met the target. Fannie Mae surpassed its target of less than $8.122 billion in repurchases with $2.953 billion in FY 2013. Freddie Mac did not meet its target of less than $1.468 billion in repurchases, with $3.359 billion in repurchases in FY 2013.
Performance Results Key: Goal Fulfillment			**Target Not Met**

* *This is a key performance measure.*

(table continued on next page)

PERFORMANCE GOAL 3.1 Minimize taxpayer losses during the Enterprises' conservatorships			
PERFORMANCE MEASURE 3.1.4 Reduce the annual percentage of manufacturing defects at loan origination			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Reduction from the previous year
Performance			Both Enterprises met their targets. Fannie Mae's target was to get under 2.8 percent and its defect rate was 1.3 percent in FY 2013. Freddie Mac's target was to get under 4.3 percent and it had a rate of 2.5 percent.
Performance Results Key: Goal Fulfillment			Target Met
PERFORMANCE MEASURE 3.1.5 Reduce the annual net of operational loss events			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Reduction of 5 Percent
Performance			Both Enterprises met this target. Fannie Mae had $3.81 million in operational losses, a 76 percent decrease from FY 2012 and Freddie Mac had $15.6 million in operational losses, a 5 percent decrease from FY 2012.
Performance Results Key: Goal Fulfillment			Target Met

Synopsis of Performance Goal 3.1: Minimize taxpayer losses during the Enterprises' conservatorships

FHFA worked with the Enterprises to reduce cross-subsidization in single-family guarantee fees charged by the Enterprises. This action reduced subsidies from lower-risk loans to higher-risk loans and eliminated advantages enjoyed by large- volume loan sellers with lower average fees. Such a reduction will help maintain the viability and diversity of private sector competitors.

During FY 2013, FHFA minimized further credit losses by undertaking legal actions to recover or prevent losses. FHFA successfully settled lawsuits with several financial institutions over private label mortgage-backed securities sold to the Enterprises before the 2008 housing crisis.

FHFA has filed 18 lawsuits against financial institutions over these securities sold to the Enterprises. Of these 18 lawsuits, several were settled out of court in FY 2013. These settlements have resulted in payments of over $5 billion from the financial institutions. FHFA has also provided legal support to the Enterprises in 55 lawsuits filed by state and local governments over the Enterprises' exemption from real estate transfer taxes. Several local governments have recently announced intentions to use their powers of eminent domain to restructure performing loans owned by the Enterprises. In response, the FHFA has notified the public of its intention to initiate legal challenges to any local or state action that sanctions the use of eminent domain to restructure mortgage loan contracts that affect FHFA's regulated entities.

The agency provided oversight of the Enterprises' efforts to reduce the amount of repurchases. Unfortunately, FHFA failed to meet this goal as Freddie Mac was unable to reduce their repurchase requests by the end of the fiscal year. However, the Enterprises reduced the annual percentage of manufacturing defects at loan origination. FHFA worked with the Enterprises to reduce operational losses during FY 2013.

Strategic Goal 4: Prepare for the Future of Housing Finance in the U.S.

FHFA is directing the Enterprise efforts to make long-term improvements to the housing finance system. While much of the future of housing finance reform rests with Congress, FHFA has an important role to play providing expertise on how to improve the existing mortgage market infrastructure. During FY 2013, FHFA continued to direct the Enterprises as they work toward the goals outlined in the SPEC. FHFA also published a Conservatorship Scorecard for 2013 that established performance goals for the Enterprises for 2013 to support the three strategic goals outlined in the SPEC, namely: build, contract, and maintain. FHFA has made major progress in implementing the initiatives included in the 2013 Scorecard's performance goals. During FY 2013, among other items, the agency moved forward with three major initiatives through which the Enterprises are building a new infrastructure for the secondary mortgage market. They are:

- Common Securitization Platform (CSP);
- Contractual and Disclosure Framework (CDF); and
- Uniform Mortgage Data Program (UMDP).

PERFORMANCE GOAL 4.1 Build a new infrastructure for the secondary mortgage market			
PERFORMANCE MEASURE 4.1.1 Publish a white paper soliciting public input on common securitization platform and model pooling and serving agreement			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Q1 FY 2013
Performance			FHFA published a white paper in the first quarter of FY 2013. The agency received comments from market participants and published a progress report in April 2013 summarizing the comments and considerations in the development of the securitization platform.
Performance Results Key: Goal Fulfillment			Target Met

(table continued on next page)

PERFORMANCE GOAL 4.1 Build a new infrastructure for the secondary mortgage market			
PERFORMANCE MEASURE 4.1.2 Finalize plans(s) for the securitization platform and pooling and service agreement			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Q3 FY 2013
Performance			FHFA made progress towards finalizing the plans. However, FHFA did not meet this goal by the June 30, 2013, deadline as planned, given that the FY 2013 Scorecard further refined what the plans must include (multi-year plans to build, test, deploy and integrate with the platform) and extended the deadlines to March 2014.
Performance Results Key: Goal Fulfillment			**Target Not Met**

Synopsis of Performance Goal 4.1: Build a new infrastructure for the secondary mortgage market

Portions of the Enterprises' existing securitization infrastructure are outdated and in need of replacement. Further, to provide policymakers with options for restructuring the secondary market, one of FHFA's objectives is to build a new infrastructure for the secondary mortgage market that will have benefits beyond the current Enterprise business model. Although FHFA made significant progress towards this objective, one measure was not met.

Early this fiscal year, FHFA issued a white paper soliciting public input on a proposal for a common securitization platform and model pooling and servicing agreement. It is worth noting that FHFA's work on the securitization platform is consistent with the Administration's goal of re-introduction of private capital into the secondary mortgage market.

In April 2013, FHFA released a progress report summarizing industry feedback on the white paper, FHFA's decisions about the scope of each portion of the initiative, and more recent work conducted by FHFA and the Enterprises.

While FHFA made progress toward finalizing the plans for the development of the securitization platform (the physical infrastructure) and the model pooling & servicing agreement (the virtual infrastructure), the target for Performance Measure 4.1.2 was not met by the June 2013 target date. The target was not met primarily because the 2013 Scorecard further refined FHFA's expectations of what the Enterprises were to include in the plans (i.e., multi-year plans to build, test, deploy and integrate with the platform). Further, the Scorecard that provided the refined scope was not finalized and issued until March 2013. The completion date for the refined plans was extended to the first quarter of FY 2014.

PERFORMANCE GOAL 4.2
Establish standards that promote a safer and more efficient housing finance system

PERFORMANCE MEASURE 4.2.1 *
Work with the industry to develop servicing data standards and agree on a timetable for data collection

	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Q3 FY 2013
Performance			During FY 2013, FHFA worked with the Enterprises to solicit feedback on servicing data standards.
Performance Results Key: Goal Fulfillment			Target Met

PERFORMANCE MEASURE 4.2.2
Announce, via the Enterprises, selling and servicing policies in support of the Contract Harmonization Project

	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Q3 FY 2013
Performance			During the first quarter of FY 2013, the Enterprises' announced, both through advisory bulletins and announcements posted on the Enterprises' websites and in *Allregs*, selling and servicing policies in support of the Contract Harmonization Project.
Performance Results Key: Goal Fulfillment			Target Met

* *This is a key performance measure.*

Synopsis of Performance Goal 4.2: Establish standards that promote a safer and more efficient housing finance system

FHFA made significant progress this year to standardize the data that supports loan-level disclosures on Enterprise mortgage-backed securities. Improving data and disclosures ensures that private investors have the information needed to efficiently measure and price mortgage credit risk. FHFA met Performance Measure 4.2.1 by directing the Enterprises to work together to develop a uniform servicing dataset. Throughout 2013, the Enterprises, under the direction of FHFA, created the draft servicing dataset that captures the data shared between servicers and investors along with some new and disclosure-related data points. The Enterprises conducted industry outreach to a targeted group of servicers, vendors, mortgage insurance companies, and government agencies to gather feedback on the 821 data points that were identified as necessary for data flow between servicers and investors. The outreach focused on four key areas: business functions, business events, data points and implementation. The Enterprises reviewed all industry feedback and provided answers to questions on individual data points.

The Mortgage Industry Standards Maintenance Organization (MISMO) accepted all proposed changes to the data model submitted by the Enterprises which included updates for over 1,000 new or existing data points. The Uniform Mortgage Servicing Data (UMSD) workgroup worked with MISMO over an eight month period to successfully update the MISMO model ahead of schedule.

During October 2012, the Enterprises announced servicing policies in support of the Contract Harmonization Project effective January 1, 2013. FHFA continues to implement the contract harmonization project in phases. This effort provides a higher degree of certainty around repurchase exposure and liability for lenders. All measures within this goal were met.

PERFORMANCE GOAL 4.3 Contract Enterprises Operations			
PERFORMANCE MEASURE 4.3.1 * **Increase the average national ongoing guarantee fees**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Fiscal Year-ending September 30, 2013 compared to preceding year
Performance			FHFA increased across-the-board loan guarantee fees (g-fees) by 10 basis points effective in Q1 FY 2013.
Performance Results Key: Goal Fulfillment			**Target Met**
PERFORMANCE MEASURE 4.3.2 **Reduction in related portfolio consistent with the Preferred Stock Purchase Agreement**			
	FY 2011	FY 2012	FY 2013
Target	New Measure for FY 2013	New Measure for FY 2013	Reduction of 15 percent annually
Performance			The Enterprises met the Preferred Stock Purchase Agreement requirements of reducing mortgage assets by 15 percent on an annual basis, which amounts to $553 billion by 2013 year-end. Mortgage Assets at both Enterprise were below this level at September 30, 2013.
Performance Results Key: Goal Fulfillment			**Target Met**

* *This is a key performance measure.*

Synopsis of Performance Goal 4.3: Contract Enterprise operations

The objective of this goal is to contract the Enterprises' footprint in the mortgage market thereby reducing the risk to the taxpayer and encouraging more private sector participation. FHFA met both targets under this performance goal.

Stricter underwriting standards and increased pricing have resulted in loans of higher quality. In FY 2013, the national ongoing guarantee fees charged by each Enterprise increased by 10 basis points (bp).

FHFA also remains committed to the principle of reducing the Enterprises' retained portfolios as set forth in the agreement with the Department of Treasury. The Enterprises met the Preferred Stock Purchase Agreement requirements of reducing their retained portfolio of mortgage assets by 15 percent.

Financial Section

MARK KINSEY

Message from the Chief Financial Officer

I am pleased to present the FY 2013 financial statements for the Federal Housing Finance Agency (FHFA) as an important component of the agency's 2013 Performance and Accountability Report (PAR). FHFA received an unmodified audit opinion on its financial statements from the Government Accountability Office (GAO). In its financial statements audit report, GAO concluded that 1) FHFA's FY 2013 financial statements are fairly presented in all material respects; 2) FHFA had effective internal control over financial reporting; and 3) there were no reportable instances of noncompliance with the laws and regulations it tested. Also, no significant deficiencies were identified.

FHFA's commitment to maintain effective programs of internal control over agency activities provides a solid foundation for GAO's audit opinion. Internal assessments conducted in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control" provided unqualified assurance that the agency's internal controls over financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations as of September 30, 2013 were operating effectively and no material weaknesses were found in their design or operation.

In addition to a clean audit opinion, FHFA received the Certificate for Excellence in Accountability Reporting (CEAR) award for its FY 2012 PAR from the Association of Government Accountants, the fifth straight year since its inception as a new agency that FHFA has received this prestigious award. The CEAR award is given to government agencies that received unqualified audit opinions on their financial statements and produced PARs that achieved the highest standards in communicating results and demonstrating accountability.

This is the first year reporting under FHFA's new Strategic Plan for the years 2013-2017. Our new Strategic Plan contains four strategic goals, compared to three strategic goals in our prior plan. The new Strategic Plan incorporates all of the key elements in the Strategic Plan for Enterprise Conservatorships that was released by the agency to the public in February 2012. As a result of our new strategic plan, many of the performance measures contained in our FY 2013 annual performance plan and reported on in this PAR are new.

Finally, even though there remains continued uncertainty over the future of the housing finance market, FHFA is committed to maintaining effective programs of internal control over agency activities and to pursuing a fiscally sound approach in operating the agency.

Sincerely,

Mark Kinsey

Mark Kinsey
Chief Financial Officer
December 16, 2013

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

Independent Auditor's Report

To the Acting Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2013 and 2012 financial statements of the Federal Housing Finance Agency (FHFA), we found

- the FHFA financial statements 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, 2013; and
- no reportable noncompliance for fiscal year 2013 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

As required by the Housing and Economic Recovery Act of 2008 (HERA),[1] we have audited FHFA's financial statements. FHFA's financial statements comprise the balance sheets as of September 30, 2013, and 2012; the related statements of net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited FHFA's internal control over financial reporting as of September 30, 2013, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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

<u>Management's Responsibility</u>

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that

[1]Pub. L. No. 110-289 (July 30, 2008).

information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2013, based on its evaluation, included in the accompanying Management Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

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

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

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.[2]

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

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

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

Opinion on Financial Statements

In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2013, and 2012, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

FHFA Reporting Entity

As discussed in note 1A of the financial statements, FHFA's fiscal years 2013 and 2012 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, the then-Director of 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.[3] 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. From early September 2008 through September 30, 2013, about $188 billion in direct financial support from the Department of the Treasury (Treasury) has been provided to Fannie Mae and Freddie Mac. Shortly after Fannie Mae and Freddie Mac were placed in conservatorship, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of these entities would not be included in the consolidated financial statements of the federal government or those of Treasury, although Treasury records in its financial statements an asset for its investment in Fannie Mae and Freddie Mac and a liability for future payments to the two entities. In making this determination, OMB and Treasury concluded that because the entities were not listed in the "Federal Programs by Agency and Account" section of the federal government's budget, because of the nature of the conservatorships, and because the federal government's ownership and control were considered to be temporary, the entities did not meet the conclusive or indicative criteria for inclusion in the consolidated federal government's or Treasury's financial

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

statements.[4] OMB reaffirmed this conclusion with respect to fiscal years 2009 through 2013. FHFA management concurred with this conclusion. Consequently, FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2013 and 2012 financial statements. Should circumstances change, such as the inclusion of Fannie Mae and Freddie Mac in the federal budget or a determination that the degree of federal control and ownership of the entities is other than temporary, this decision would need to be revisited. Our opinion on FHFA's financial statements is not modified with respect to this matter.

Opinion on Internal Control over Financial Reporting

In our opinion, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on criteria established under FMFIA. During our 2013 audit, we identified deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[5] Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that RSI be presented to supplement the financial statements.[6] Although not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

FHFA's other information contains a wide range of information, some of which is not directly related to the financial statements.[7] This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. We read the other

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

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

[6]RSI is comprised of "Management's Discussion and Analysis" that is included with the financial statements.

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

information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on FHFA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2013 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHFA. Accordingly, we do not express such an opinion.

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

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

Agency Comments

In commenting on a draft of this report, the acting Director of FHFA stated that he accepted the audit conclusions and commented that the agency would continue to work to enhance its internal control and ensure the reliability of its financial reporting, its soundness of operations, and public confidence in its mission.

The complete text of FHFA's response is reprinted in appendix II.

J. Lawrence Malenich
Director
Financial Management and Assurance

December 9, 2013

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

Federal Housing Finance Agency
Constitution Center
400 7th Street, S.W.
Washington, D.C. 20024
Telephone: (202) 649-3800
Facsimile: (202) 649-1071
www.fhfa.gov

Management's Report on Internal Control Over Financial Reporting

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

FHFA management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA management evaluated the effectiveness of FHFA's internal control over financial reporting as of September 30, 2013, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2013, FHFA's internal control over financial reporting was effective.

Edward J. DeMarco

Edward J. DeMarco
Acting Director

Mark Kinsey

Mark Kinsey
Chief Financial Officer

December 9, 2013

Appendix II: FHFA Response to Auditor's Report

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

December 9, 2013

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

Dear Mr. Malenich:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Housing Finance Agency's Fiscal Years 2013 and 2012 Financial Statements (GAO-14-171R). This report presents GAO's opinion on the fiscal years 2013 and 2012 financial statements of the Federal Housing Finance Agency (FHFA). The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2013 and GAO's evaluation of FHFA's compliance with laws and regulations.

I am pleased to accept GAO's unmodified opinion on the FHFA financial statements and to note that there were no material weaknesses or significant deficiencies identified during the fiscal year 2013 audit. The GAO reported that: the statements and notes were presented fairly, in all material respects; FHFA had effective internal controls over financial reporting; and there were no reportable instances of noncompliance with laws and regulations tested by GAO.

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

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

Sincerely,

Edward J. DeMarco

Edward J. DeMarco
Acting Director

400 7th Street, S.W., Washington, D.C. 20024 • 202-649-3801 • 202-649-1071 (fax)

FINANCIAL SECTION

FEDERAL HOUSING FINANCE AGENCY

Consolidated Balance Sheets

As of September 30, 2013 and 2012
(In Thousands)

	2013	2012
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 15,914	$ 20,998
Investments - Note 3	71,907	77,420
Total Intragovernmental	87,821	98,418
Accounts Receivable, Net - Note 4	14	13
Property, Equipment, and Software, Net - Note 5	39,426	45,528
Prepaid Expenses	851	840
Total Assets	**$ 128,112**	**$ 144,799**
Liabilities:		
Intragovernmental		
Accounts Payable	$ 1,637	$ 766
Other Intragovernmental Liabilities - Note 7	1,406	2,727
Total Intragovernmental	3,043	3,493
Accounts Payable	9,546	9,728
Unfunded Leave	11,175	10,485
Deferred Lease Liabilities	24,805	23,917
Other Liabilities - Note 7	3,026	6,503
Total Liabilities	51,595	54,126
Net Position:		
Cumulative Results of Operations	76,517	90,673
Total Net Position	$ 76,517	$ 90,673
Total Liabilities and Net Position	**$ 128,112**	**$ 144,799**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statement of Net Cost

For the Year Ended September 30, 2013
(In Thousands)

	2013
Program Costs by Strategic Goal—Notes 1B and 10:	
Safety and Soundness:	
Gross Costs	$ 153,119
Less: Earned Revenue	(193,766)
Net Safety and Soundness (Income from)/Cost of Operations	**$ (40,647)**
Stability, Liquidity, and Access:	
Gross Costs	$ 40,855
Less: Earned Revenue	(9,668)
Net Stability, Liquidity, and Access (Income from)/Cost of Operations	**$ 31,187**
Conservatorship:	
Gross Costs	$ 45,128
Less: Earned Revenue	(13,934)
Net Conservatorship (Income from)/Cost of Operations	**$ 31,194**
Prepare for the Future:	
Gross Costs	$ 10,869
Less: Earned Revenue	(12,022)
Net Prepare for the Future (Income from)/Cost of Operations	**$ (1,153)**
Total Gross Program Costs	$ 249,971
Less: Total Earned Revenue	(229,390)
Net (Income from)/Cost of Operations	**$ 20,581**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statement of Net Cost

For the Year Ended September 30, 2012
(In Thousands)

		2012
Program Costs by Strategic Goal—Notes 1B and 10:		
Safety and Soundness:		
Gross Costs	$	153,621
Less: Earned Revenue		(124,731)
Net Safety and Soundness (Income from)/Cost of Operations	**$**	**28,890**
Affordable Housing:		
Gross Costs	$	24,919
Less: Earned Revenue		(64,607)
Net Affordable Housing (Income from)/Cost of Operations	**$**	**(39,688)**
Conservatorship:		
Gross Costs	$	38,961
Less: Earned Revenue		(36,595)
Net Conservatorship (Income from)/Cost of Operations	**$**	**2,366**
Total Gross Program Costs	$	217,501
Less: Total Earned Revenue		(225,933)
Net (Income from)/Cost of Operations	**$**	**(8,432)**

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

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	2012
Cumulative Results of Operations:		
Beginning Balance	$ 90,673	$ 76,431
Imputed Financing Sources	6,425	5,810
Total Financing Sources	6,425	5,810
Net Cost of Operations	(20,581)	8,432
Net Change	(14,156)	14,242
Cumulative Results of Operations	**$ 76,517**	**$ 90,673**
Net Position	**$ 76,517**	**$ 90,673**

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, 2013 and 2012
(In Thousands)

	2013	2012
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 45,535	$ 27,672
Recoveries of Prior Year Unpaid Obligations	11,535	11,018
Unobligated Balance From Prior Year Budget Authority, Net	57,070	38,690
Appropriations	225,445	224,352
Spending Authority From Offsetting Collections	41,608	41,593
Total Budgetary Resources	**$ 324,123**	**$ 304,635**
Status of Budgetary Resources:		
Obligations Incurred - Note 11	$ 284,684	$ 259,100
Unobligated Balance, End of Year:		
Exempt from Apportionment	39,439	45,535
Total Unobligated Balance, End of Year	39,439	45,535
Total Budgetary Resources	**$ 324,123**	**$ 304,635**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 52,883	$ 67,053
Obligations Incurred	284,684	259,100
Outlays (Gross)	(277,649)	(262,252)
Recoveries of Prior Year Unpaid Obligations	(11,535)	(11,018)
Unpaid Obligations, End of Year (Gross)	48,383	52,883
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(28)
Change in Uncollected Payments, Federal Sources	–	28
Obligated Balance, End of Year, Net	48,383	52,883
Obligated Balance, Start of Year, Net	**$ 52,883**	**$ 67,025**
Obligated Balance, End of Year, Net	**$ 48,383**	**$ 52,883**
Budget Authority and Outlays, Net:		
Budget Authority (Gross)	$ 267,053	$ 265,945
Actual Offsetting Collections	(41,608)	(41,621)
Change in Uncollected Customer Payments From Federal Sources	–	28
Budget Authority, Net	**$ 225,445**	**$ 224,352**
Outlays (Gross)	$ 277,649	$ 262,252
Actual Offsetting Collections	(41,608)	(41,621)
Outlays, Net	236,041	220,631
Distributed Offsetting Receipts	(225,445)	(224,353)
Agency Outlays, Net	**$ 10,596**	**$ (3,722)**

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

Notes to the Financial Statements

For the Years Ended September 30, 2013 and 2012

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 12 Federal Home Loan Banks (FHLBanks), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Office of Finance, all of which are referred to as Regulated Entities. FHFA is responsible for ensuring that each Regulated Entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out their housing and community development finance missions.

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

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

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

Both Fannie Mae and Freddie Mac, as represented by FHFA as their Conservator, entered into separate agreements with Treasury known as the Senior Preferred Stock Purchase Agreements (Agreements) on

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

The August 17, 2012 amendment eliminates the circularity of Treasury funding dividends paid to Treasury. Beginning on January 1, 2013, all future net income/profits above an established threshold will be distributed to Treasury as dividends. The Agreements require each Enterprise to obtain Treasury approval for the disposition of assets, except under certain circumstances. FHFA as Conservator reviews these requests. Draws by Fannie Mae and Freddie Mac on their Agreements with Treasury are summarized below (dollars in billions). These draws are reported in Treasury's financial statements as investments.

ENTERPRISE DRAWS ON TREASURY AGREEMENTS
(Dollars in Billions)

Quarter	Fannie Mae	Freddie Mac
September 30, 2008	$ –	$ 13.8
December 31, 2008	15.2	30.8
March 31, 2009	19.0	6.1
June 30, 2009	10.7	–
September 30, 2009	15.0	–
December 31, 2009	15.3	–
March 31, 2010	8.4	10.6
June 30, 2010	1.5	1.8
September 30, 2010	2.5	0.1
December 31, 2010	2.6	0.5
March 31, 2011	8.5	–
June 30, 2011	5.1	1.5
September 30, 2011	7.8	6.0
December 31, 2011	4.6	0.1
March 31, 2012	–	–
June 30, 2012	–	–
September 30, 2012	–	–
December 31, 2012	–	–
March 31, 2013	–	–
June 30, 2013	–	–
Cumulative Draws	**$ 116.2**	**$ 71.3**

B. Basis of Presentation

FHFA's principal statements were prepared from its official financial records and general ledger in conformity with accounting principles generally accepted in the United States and follow the presentation guidance established by OMB Circular No. 136 "Financial Reporting Requirements," as amended. 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. As required by HERA, the financial statements of FHFA are audited by the U.S. Government Accountability Office (GAO). The financial statements include the activities and transactions of the FHFA-OIG. The amounts reported in the financial statements are consolidated totals net of intra-entity transactions, except for the Statement of Budgetary Resources (SBR), 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.

FHFA moved from the three strategic goals presented in FY 2012 (1 – Safety and Soundness; 2 – Affordable Housing; 3 – Conservatorship) to the four strategic goals presented this year as the result of FHFA's new Strategic Plan: Fiscal Years 2013–2017. FHFA's Strategic Plan builds on the Conservatorships Strategic Plan, which the Acting Director presented to Congress in February 2012. Strategic Goal 1 is the only goal that reflects the same activities in both FY 2012 and FY 2013. The activities for the remaining strategic goals differ from FY 2012 to FY 2013. FY 2012 activities under Strategic Goal 2 are now distributed across Strategic Goals 2 and 4. FY 2012 activities for Strategic Goal 3 are now reported under Strategic Goals 3 and 4. Because the new and old strategic goals are not equivalent, FY 2013 and FY 2012 Consolidated Statements of Net Cost are presented separately.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds. FHFA's financial statements conform to accounting principles generally accepted in the United States 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 generally accepted accounting principles for federal entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

D. Revenues, Imputed & Other Financing Sources

Operating revenues of FHFA are obtained through assessments of the Regulated Entities. The agency's Acting Director approved the annual budgets for FY 2013 and 2012 in August 2012 and 2011, 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 Acting Director 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 12 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. Additionally, FHFA levied a special assessment for conservatorship activities on Fannie Mae and Freddie Mac during FY 2012.

Fannie Mae and Freddie Mac pay a pro rata share of their portion of the total assessment based on the combined assets and off-balance sheet obligations of each enterprise. Each FHLBank's share of their portion of the total assessment is based on the dollar value of its capital stock relative to the combined dollar value of all FHLBanks' capital stock. Assessment letters are sent to the entities 30 days prior to the assessment due dates of October 1st and April 1st.

FHFA receives rental revenues related to an Interagency agreement with the Consumer Financial Protection Bureau (CFPB) for the use of certain already-acquired but unused services, supplies and space available.

Federal government entities often receive goods and services from other federal government entities without reimbursing the providing entity for all the related costs. In addition, federal government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FHFA recognized imputed costs and financing sources in FY 2013 and FY 2012 as prescribed by accounting standards. FHFA recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees accrued on FHFA's behalf by the Office of Personnel Management (OPM).

E. Use of Estimates

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

F. Fund Balance with Treasury

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

During the year, increases to FHFA's Fund Balance with Treasury are comprised of semi-annual assessments, investment interest, collections on reimbursable agreements, civil penalty monies, and Freedom of Information Act (FOIA) request fees. FHFA is not authorized to retain civil penalty monies or FOIA fees, and as such, records these as custodial liabilities (See Note 15. Incidental Custodial Collections) until transferred to the Treasury General Fund.

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

G. Investments

FHFA has the authority to invest in U.S. Treasury securities with maturities suitable to FHFA's needs. FHFA invests solely in U.S. Treasury securities. During FY 2013 and FY 2012, FHFA invested in one-day certificates issued by the U.S. Treasury.

H. Accounts Receivable

Accounts receivable consists of amounts owed to FHFA by other federal agencies and the public. Amounts due from federal agencies are considered fully collectible and consist of interagency agreements. Accounts receivable from the public include reimbursements from employees, civil penalty assessments, and FOIA request fees. An allowance for uncollectible accounts receivable from the public is established when either (1) management determines that collection is unlikely to occur after a review of outstanding accounts and the failure of all collection efforts, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. Based on historical experience, all receivables are collectible and no allowance is provided.

I. Property, Equipment, and Software, Net

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

DESCRIPTION	THRESHOLD
Furniture and Equipment	$ 50,000
Leasehold Improvements	$ 250,000
Software: Internally Developed	$ 500,000
Software: Off-the-Shelf	$ 200,000
Capitalized Leases	$ 250,000
Bulk Purchases	$ 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	Remaining term of lease at the time of improvement completion
Software: Internally Developed	3
Software: Off-the-Shelf	3
Capitalized Leases	Term of lease
Bulk Purchases	3

FHFA has no real property holdings or 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, in excess of $25,000, 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.

K. Liabilities

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

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

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

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, deferred lease liabilities and the amounts due to Treasury for collection and accounts receivable of civil penalties and FOIA request fees. Annual leave is earned throughout the fiscal year and is paid when leave is taken by the employee; the accrued liability for annual leave represents the balance earned but not yet taken. Deferred lease liabilities consist of deferred rent and the Constitution Center tenant allowance. Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight line method. This determination and recording of deferred rent is applicable to the lease agreements on the properties at 400 7th Street SW Constitution Center and 5080 Spectrum Drive (See Note 8. Leases).

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. Annual leave is accrued based on years of creditable federal service and military service, with the following exceptions: Former Office of Federal Housing Enterprise Oversight (OFHEO) employees hired between April 25, 2005 and July 30, 2008 accrue annual leave based on years of creditable federal and military service as well as years of relevant private sector experience (HERA abolished OFHEO when FHFA was established in July 2008).

Additionally, FHFA employees hired into mission critical positions, EL-13 and above, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal agencies may also have been authorized to receive credit for private sector time. EL employees may carryover up to 240 hours of annual leave each year. The FHFA executive employees (LL's) equivalent to the Senior Executive Service (SES) employees may accrue annual leave consistent with the rules for SES level employees. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to the employee upon leaving federal service, based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon separation, any unused sick leave of Civil Service Retirement System (CSRS) plan employees is creditable as additional time in service for the purpose of calculating an employee's retirement annuity. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning October 28, 2009 and 100% beginning January 1, 2014.

Health Benefits and Life Insurance: FHFA, through programs established for all agencies by the federal government, offers its employees health and life insurance coverage through the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The cost of each is shared by FHFA and its employees. FHFA pays 90% of the FEHB premium. In addition, all employees have 1.45% of gross earnings withheld to pay for Medicare taxes.

M. Retirement Plans

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS, CSRS-Offset, FERS (FERS is provided under calculations for both regular employees as well as law enforcement employees in the Office of the Inspector General), or FERS-Revised Annuity Employee (RAE). FHFA remits the employer's share of the required contribution, which is 11.9% for FERS, 9.6% for FERS-RAE and 7% for CSRS. Prior to December 31, 1983, all eligible employees were covered under the CSRS program. Any employee hired from January 1, 1984 through December 31, 1986, were placed in CSRS Offset which served as interim retirement plan until FERS was created on January 1, 1987. At that time, any employee who did not have 5 years of prior federal service under CSRS was automatically moved to FERS. As of January 1, 1987, hires to FHFA without previous Federal service are automatically covered under FERS. Employees covered by CSRS who leave the federal government and return with a break of service of one year or more after December 31, 1983 are subject to mandatory social security contributions and are placed under CSRS Offset. Effective January 1, 2013, any employee who begins employment with FHFA with no prior federal service is placed under FERS-RAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1% of pay. Effective July 31, 2010, FERS employees are automatically enrolled in TSP equal to 3% of pay unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4% of pay. For FERS participants, FHFA also contributes the employer's share of Social Security.

FERS employees and CSRS-Offset employees are eligible to receive Social Security benefits after retirement once they reach the full retirement age. Employees subject to social security withholdings currently contribute 6.2%. The 2013 maximum taxable wage base for Social Security is $113,700.

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

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

In addition to the TSP, FHFA offers a supplemental 401(K) plan that is administered by T. Rowe Price. All CSRS and FERS employees are eligible to contribute to the 401(K). All eligible employees that participate may contribute up to 10% of their bi-weekly salary on a pre-tax basis while FHFA will match contributions up to 3% of the employee's salary. Qualified employees may participate in the TSP and/or FHFA's 401(K) Savings Plan, up to the Internal Revenue Code limitations established for salary deferral and annual additions.

N. Contingencies

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

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) consists of an operating fund and a working capital fund. The funds in the working capital fund were fully invested during FY 2013 and FY 2012. FBWT account balances as of September 30, 2013 and 2012 were as follows (dollars in thousands):

	2013	2012
Fund Balances:		
Operating Fund	$ 15,914	$ 20,998
Total	**$ 15,914**	**$ 20,998**
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 39,439	$ 45,535
Obligated Balance Not Yet Disbursed	48,383	52,883
Investments	(71,907)	(77,420)
Total	**$ 15,914**	**$ 20,998**

(See Note 12. Legal Arrangements Affecting Use of Unobligated Balances)

Note 3. Investments

Investments as of September 30, 2013 consist of the following (dollars in thousands):

	COST	AMORTIZED (Premium)Discount	INTEREST RECEIVABLE	INVESTMENTS NET	MARKET VALUE DISCLOSURE
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 71,907	$ –	$ –	$ 71,907	$ 71,907

Investments as of September 30, 2012 consist of the following:

	COST	AMORTIZED (Premium)Discount	INTEREST RECEIVABLE	INVESTMENTS NET	MARKET VALUE DISCLOSURE
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 77,420	$ –	$ –	$ 77,420	$ 77,420

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. FHFA is currently investing in one-day certificates issued by the U.S. Treasury. There were no amortized premiums/discounts on investments as of September 30, 2013 or 2012. Interest earned on investments was $73 thousand and $57 thousand for FY 2013 and FY 2012, respectively.

Note 4. Accounts Receivable

Accounts Receivable balances as of September 30, 2013 and 2012 were as follows (dollars in thousands):

	2013	2012
With the Public		
Accounts Receivable	$ 14	$ 13
Total Accounts Receivable	**$ 14**	**$ 13**

There are no amounts that are deemed uncollectible as of September 30, 2013 and 2012.

Note 5. Property, Equipment, and Software, Net

Schedule of Property, Equipment, and Software as of September 30, 2013 (dollars in thousands):

MAJOR CLASS		ACQUISITION COST		ACCUMULATED AMORTIZATION/ DEPRECIATION		NET BOOK VALUE
Equipment	$	26,263	$	17,831	$	8,432
Leasehold Improvements		33,837		3,772		30,065
Internal-Use Software		4,266		4,002		264
Software-in-Development		329		–		329
Construction-in-Progress		336		–		336
Total	**$**	**65,031**	**$**	**25,605**	**$**	**39,426**

Schedule of Property, Equipment, and Software as of September 30, 2012 (dollars in thousands):

MAJOR CLASS		ACQUISITION COST		ACCUMULATED AMORTIZATION/ DEPRECIATION		NET BOOK VALUE
Equipment	$	24,630	$	10,980	$	13,650
Leasehold Improvements		31,708		1,515		30,193
Internal-Use Software		4,160		3,542		618
Construction-in-Progress		1,067		–		1,067
Total	**$**	**61,565**	**$**	**16,037**	**$**	**45,528**

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 fiscal year 2012.

Note 6. Liabilities Covered and Not Covered by Budgetary Resources

Liabilities Covered and Not Covered By Budgetary Resources as of September 30, 2013 consist of the following (dollars in thousands):

		COVERED		NOT-COVERED		TOTAL
Intragovernmental Liabilities						
Accounts Payable	$	1,637	$	–	$	1,637
Other Intragovernmental Liabilities		1,406		–		1,406
Total Intragovernmental Liabilities	**$**	**3,043**	**$**	**–**	**$**	**3,043**
Accounts Payable	$	9,546	$	–	$	9,546
Unfunded Leave		–		11,175	$	11,175
Deferred Lease Liabilities		–		24,805	$	24,805
Other Liabilities		3,026		–	$	3,026
Total Public Liabilities	**$**	**12,572**	**$**	**35,980**	**$**	**48,552**
Total Liabilities	**$**	**15,615**	**$**	**35,980**	**$**	**51,595**

Liabilities Covered and Not Covered By Budgetary Resources as of September 30, 2012 consist of the following (dollars in thousands):

	COVERED		NOT-COVERED		TOTAL	
Intragovernmental Liabilities						
Accounts Payable	$	766	$	–	$	766
Other Intragovernmental Liabilities		2,727		–		2,727
Total Intragovernmental Liabilities	**$**	**3,493**	**$**	**–**	**$**	**3,493**
Accounts Payable	$	9,728	$	–	$	9,728
Unfunded Leave		–		10,485	$	10,485
Deferred Lease Liabilities		–		23,917	$	23,917
Other Liabilities		6,503		–	$	6,503
Total Public Liabilities	**$**	**16,231**	**$**	**$34,402**	**$**	**50,633**
Total Liabilities	**$**	**19,724**	**$**	**$34,402**	**$**	**54,126**

Note 7. Other Liabilities

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

Other Liabilities as of September 30, 2013 and September 30, 2012 consist of the following (dollars in thousands):

	2013		2012	
Intragovernmental Liabilities				
Funded FECA Liability	$	5	$	11
Unemployment Insurance Liability		1		–
Accrued Funded Payroll		36		36
Payroll Benefits Payable		643		1,500
Advances and Prepayments		721		1,180
Total Intragovernmental Other Liabilities	**$**	**1,406**	**$**	**2,727**
With the Public				
Employer Benefit Contributions	$	497	$	713
Accrued Funded Payroll		2,529		5,790
Total Public Other Liabilities	**$**	**3,026**	**$**	**6,503**

Note 8. Leases

Current Operating Leases

1625 Eye Street NW – FHFA Space

FHFA leases office space in Washington, DC at 1625 Eye Street NW. The lease terms of 1625 Eye Street expire on June 30, 2015. The lease is non-cancellable. FHFA entered into an Interagency Agreement (IAA) with the Consumer Financial Protection Bureau (CFPB) on March 29, 2012, for CFPB's use of certain already-acquired but unused services, supplies and space available on a short-term basis. The IAA includes, but is not limited to, furniture, equipment, IT network infrastructure, and space at 1625 Eye Street, NW. The CFPB took occupancy on April 1, 2012. The IAA expires on June 30, 2015 in conjunction with FHFA's lease expiration. The receipts from CFPB are less than the lease expenditures, thus requiring FHFA to record a loss. Therefore, the loss recognized for the years ended September 30, 2013, and 2012 is $1.4 million and $679 thousand, respectively. FHFA will not recognize a loss contingency for the remaining life of the IAA since the agreement is with a federal agency and is deemed collectable.

400 7th Street SW – Constitution Center

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

5080 Spectrum Drive

FHFA entered into a lease for office space at 5080 Spectrum Drive in Addison, Texas on April 23, 2012. FHFA took occupancy on August 16, 2012. FHFA does not have the right to terminate the lease for the convenience of the government. FHFA may only exercise a one-time early termination at the end of the 39th month following the commencement date of the lease. The written termination notice must be provided to the landlord nine months prior to the termination date. The lease terms of 5080 Spectrum Drive expire on July 31, 2017.

300 N Los Angeles Street

FHFA-OIG entered into a lease for office space at 300 N Los Angeles Street, Los Angeles, CA on May 13, 2013. FHFA-OIG took occupancy on June 01, 2013. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four months notice at any point after the first 12 months of occupancy. The lease terms of 300 N Los Angeles Street expire on April 30, 2018.

501 E Polk Street

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

20 Washington Place

FHFA-OIG entered into a lease for office space at 20 Washington Place, Newark, NJ on June 12, 2012; but has yet to take occupancy due to construction of the property. FHFA-OIG expects to take occupancy in the early part of FY 2014. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The lease terms of 20 Washington Place expire on September 14, 2022.

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

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

FISCAL YEAR	AMOUNT
2014	$ 19,906
2015	19,316
2016	16,656
2017	16,934
2018	17,272
Thereafter	60,066
Total Future Payments	**$ 150,150**

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

FISCAL YEAR	AMOUNT
2014	$ 2,992
2015	2,319
2016	–
2017	–
2018	–
Thereafter	–
Total Future Operating Lease Receivables	**$ 5,311**

Additionally, FHFA leases contingency space at an undisclosed location. The lease expires on March 31, 2014.

Total rental payments for the fiscal years ended September 30, 2013 and 2012 were $21.4 million and $15.6 million, respectively.

Operating Leases Terminated During Fiscal Year 2012

1700 G Street NW

FHFA had an occupancy lease with the Office of the Comptroller of the Currency (OCC) at 1700 G Street NW, Washington, DC that covered office space and building services, including utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms with OFHEO. This lease was transferred to FHFA with its creation. FHFA exercised the third of the three option terms. FHFA terminated the lease effective January 31, 2012.

1750 Pennsylvania Avenue NW

FHFA leased office space in Washington, DC at 1750 Pennsylvania Avenue NW. The lease term expired on January 31, 2012.

1625 Eye Street NW – FHFA-OIG Space

FHFA-OIG leased office space in 1625 Eye Street NW. The FHFA lease terms at 1625 Eye Street NW expired one year after the occupation date, January 24, 2011, with optional renewal periods for up to two years. FHFA-OIG terminated the lease on January 24, 2012.

Note 9. Commitments and Contingencies

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2013 and 2012.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the 14 Regulated Entities. The Regulated Entities include Freddie Mac, Fannie Mae and the 12 FHLBanks. FHFA tracks resource allocations and program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. The Strategic Goals (1 – Safety and Soundness; 2 – Stability, Liquidity, and Access; 3 – Conservatorship; and 4 – Prepare for the Future) guide program offices to carry out FHFA's vision and mission. FHFA has a Resource Management Strategy, which is distributed proportionately to Strategic Goals 1–4 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA-OIG allocated their costs to FHFA's Resource Management Strategy.

FHFA moved from the three strategic goals presented in FY 2012 (1 – Safety and Soundness; 2 – Affordable Housing; 3 – Conservatorship) to the four strategic goals presented this year as the result of FHFA's new Strategic Plan: Fiscal Years 2013-2017. FHFA's Strategic Plan builds on the Conservatorships Strategic Plan, which the Acting Director presented to Congress in February 2012. Strategic Goal 1 is the only goal that reflects the same activities in both FY 2012 and FY 2013. The activities for the remaining strategic goals differ from FY 2012 to FY 2013. FY 2012 activities under Strategic Goal 2 are now distributed across Strategic Goals 2 and 4. FY 2012 activities for Strategic Goal 3 are now reported under Strategic Goals 3 and 4. Because the new and old strategic goals are not equivalent, FY 2013 and FY 2012 Consolidated Statements of Net Cost are presented separately.

FHFA's revenue was provided by the Regulated Entities through assessments. FHFA-OIG received their funding through a $38.1 million transfer from FHFA in FY 2013 and a $38.8 million transfer in FY 2012. FHFA-OIG's total expenses for FY 2013 and FY 2012 were $45 million and $36.2 million, respectively.

Program costs are broken out into two categories – "Intragovernmental" and "With the Public." Intragovernmental costs are costs FHFA incurs through contracting with other federal agencies for goods and/or services, such as payroll processing services received from the Department of Agriculture 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. Revenue is comprised of assessments, investment interest, and reimbursable agreements. 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):

		2013
Safety and Soundness		
Intragovernmental Costs	$	30,408
Public Costs		122,711
Total Program Costs		153,119
Less: Intragovernmental Earned Revenue		3,394
Less: Public Earned Revenue		190,372
Net Safety and Soundness Program (Income)/Costs		**(40,647)**
Stability, Liquidity, and Access		
Intragovernmental Costs		8,746
Public Costs		32,109
Total Program Costs		40,855
Less: Intragovernmental Earned Revenue		169
Less: Public Earned Revenue		9,499
Net Stability, Liquidity, and Access Program (Income)/Costs		**31,187**
Conservatorship		
Intragovernmental Costs		751
Public Costs		44,377
Total Program Costs		45,128
Less: Intragovernmental Earned Revenue		244
Less: Public Earned Revenue		13,690
Net Conservatorship Program (Income)/Costs		**31,194**
Prepare for the Future		
Intragovernmental Costs		2,505
Public Costs		8,364
Total Program Costs		10,869
Less: Intragovernmental Earned Revenue		211
Less: Public Earned Revenue		11,811
Net Prepare for the Future Program (Income)/Costs		**(1,153)**
Total Intragovernmental Costs		42,410
Total Public Costs		207,561
Total Costs		249,971
Less: Total Intragovernmental Earned Revenue		4,018
Less: Total Public Earned Revenue		225,372
Total Net (Income)/Cost	**$**	**20,581**

		2012
Safety and Soundness		
Intragovernmental Costs	$	31,042
Public Costs		122,579
Total Program Costs		153,621
Less: Intragovernmental Earned Revenue		904
Less: Public Earned Revenue		123,827
Net Safety and Soundness Program (Income)/Costs		**28,890**
Affordable Housing		
Intragovernmental Costs		6,059
Public Costs		18,860
Total Program Costs		24,919
Less: Intragovernmental Earned Revenue		468
Less: Public Earned Revenue		64,139
Net Affordable Housing Program (Income)/Costs		**(39,688)**
Conservatorship		
Intragovernmental Costs		267
Public Costs		38,694
Total Program Costs		38,961
Less: Intragovernmental Earned Revenue		265
Less: Public Earned Revenue		36,330
Net Conservatorship Program (Income)/Costs		**2,366**
Total Intragovernmental Costs		37,368
Total Public Costs		180,133
Total Costs		217,501
Less: Total Intragovernmental Earned Revenue		1,637
Less: Total Public Earned Revenue		224,296
Total Net (Income)/Cost	**$**	**(8,432)**

Note 11. Apportionment Categories of Obligations Incurred

All obligations incurred are characterized as exempt from apportionment (i.e. not apportioned), on the Statement of Budgetary Resources. Obligations incurred and reported in the Statement of Budgetary Resources in FY 2013 and FY 2012 consisted of the following (dollars in thousands):

	2013	2012
Direct Obligations Exempt from Apportionment	$ 281,086	$ 256,340
Reimbursable Obligations Exempt from Apportionment	3,598	2,760
Total Obligations Incurred	**$ 284,684**	**$ 259,100**

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. As of September 30, 2013 and 2012, the unobligated balance was $39.4 million and $45.5 million, respectively. The portion of FY 2013 unobligated available balance that will be credited against the Regulated Entities' April 2014 assessments is $12.6 million with the remaining $10 million retained in the working capital fund and $16.8 million retained for conservatorship activities. The portion of FY 2012 unobligated balance that was credited against the Regulated Entities' April 2013 assessment was $19.9 million with the remaining $10 million retained in the working capital fund and $15.6 million retained for conservatorship related activities. (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 President's Budget that will include FY 2013 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2014 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb*. The 2014 Budget of the United States Government, with the "Actual" column completed for 2012, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

Note 14. Undelivered Orders at the End of the Period

For the fiscal years ended September 30, 2013 and 2012, budgetary resources obligated for undelivered orders amounted to $34.3 million and $35.2 million, respectively.

Note 15. Incidental Custodial Collections

FHFA's custodial collections primarily consist of Freedom of Information Act requests and civil penalties assessed against the Regulated Entities. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the agency nor material to the overall financial statements. FHFA's custodial collections are $3.3 thousand for the year ended September 30, 2013. Custodial collections totaled $6.7 thousand for the year ended September 30, 2012. There were no civil penalties assessed or collected in FY 2013 or FY 2012. 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. Reconciliation of Net Cost of Operations to Budget

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

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 284,684	$ 259,100
Spending Authority from Offsetting Collections and Recoveries	(53,143)	(52,611)
Obligations Net of Offsetting Collections and Recoveries	231,541	206,489
Offsetting Receipts	(225,445)	(224,353)
Net Obligations	6,096	(17,863)
Other Resources		
Imputed Financing from Costs Absorbed by Others	6,425	5,810
Net Other Resources Used to Finance Activities	6,425	5,810
Total Resources Used to Finance Activities	**12,522**	**(12,053)**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	380	18,689
Resources That Fund Expenses Recognized in Prior Periods	–	(10)
Resources That Finance the Acquisition of Assets	(5,038)	(47,679)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(4,658)	(29,000)
Total Resources Used to Finance the Net Cost of Operations	**7,864**	**(41,053)**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	690	986
Other	888	23,917
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	1,578	24,903
Components Not Requiring or Generating Resources		
Depreciation and Amortization	9,755	6,907
Revaluation of Assets or Liabilities	1,385	963
Other	(1)	(152)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	11,139	7,718
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	12,717	32,621
Net (Income from)/Cost of Operations	**$ 20,581**	**$ (8,432)**

FINANCIAL SECTION

Other Information

- FHFA FY 2012 Performance Measures No Longer Reported
- Inspector General's FY 2014 Management and Performance Challenges
- Summary of Financial Statements Audit and Management Assurances

FHFA FY 2012 Performance Measures No Longer Reported

WHY THE MEASURES WERE DISCONTINUED
FY 2013 was the first year FHFA operated under its FY2013—FY2017 Strategic plan. The new strategic plan introduced new goals and therefore, new measures.

Performance Measures

STRATEGIC GOAL 1 The housing GSEs operate in a safe and sound manner and comply with legal requirements	
No.	**Measure**
1.1.1	Improve Component ratings at each Enterprise.
1.2.1	Composite rating at each FHLBank of "2" or greater.
1.2.2	Classify capital rating at each FHLBank as "adequately capitalized" quarterly.

STRATEGIC GOAL 2 The housing GSEs support a stable, liquid, and efficient mortgage market including sustainable homeownership and affordable housing	
No.	**Measure**
2.1.1	Ensure liquidity levels at Fannie Mae and Freddie Mac meet or exceed required levels or are brought into compliance within 5 business days.
2.1.2	Ensure liquidity levels at the FHLBanks meet or exceed required levels or are brought into compliance within 5 business days.
2.2.1	Ensure all FHLBanks award affordable housing program (AHP) funds at least equal to statutory minimums.
2.2.2	Regulated entities will provide updated performance plans within 180 days in response to agency notification of potential performance shortfalls in meeting housing goals.
2.3.1	Develop and publish house price indices that omit or reduce the influence of distressed sales from the estimation sample for Metropolitan Statistical Areas or states.
2.4.1	Respond to Congressional inquiries within 15 business days.

STRATEGIC GOAL 3 FHFA preserves and conserves the assets and property of the Enterprises, ensures focus on their housing mission, and facilitates their financial stability and emergence from conservatorship	
No.	**Measure**
3.1.1	Each Enterprises submits an acceptable asset disposition plan for assets identified by FHFA.
3.1.2	Complete quarterly review of Enterprises' assets, partnerships, contracts and litigation activities.
3.2..1	All conservator requests received through the *FHFA Conservator Decision* email box are brought to the Conservatorship Governance Committee (CGC) and assigned to a lead office for resolution.
3.4.1	Provide technical assistance to Congress and the Administration on various future structures for the secondary mortgage market and for post-conservatorship outcomes for the Enterprises.

RESOURCE MANAGEMENT FHFA has the personnel, resources, and infrastructure to manage effectively and efficiently to achieve its mission and goals	
No.	**Measure**
4.1.1	Improve FHFA Employee Viewpoint Survey (EVS) results in the area of "Communication."
4.2.1	Number and variation of targeted outreach events designed to provide information and education to qualified candidates and facilitate increased employment applications and inquiries by women and minority candidates.
4.3.1	Percent of FHFA's external audits and reviews that receive unqualified opinions with no material weaknesses or unacceptable risks.
4.3.2	Ensure management completes corrective action on OIG findings within agreed timeframe.
4.4.2	Percent of Incidents responded to by Help Desk personnel within 15 business minutes.

OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street, S.W., Washington DC 20024

October 15, 2013

TO: Edward J. DeMarco, Director (Acting)

Michael P. Stephens

FROM: Michael P. Stephens, Inspector General (Acting)

SUBJECT: FY 2014 Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000 (P.L. 106-531), we are providing you with the attached annual report from the Office of Inspector General (OIG) on the most serious management and performance challenges facing the Federal Housing Finance Agency (FHFA or the agency) in Fiscal Year (FY) 2014. In summary, we find that the agency can make meaningful headway on the challenges identified by continuing to manage in an uncertain environment, improving its management of the Fannie Mae and Freddie Mac conservatorships, and ensuring adequate supervision and regulation of the GSEs' relationships with their counterparties and their oversight of counterparties' contractual performance.

This report represents our current assessment of FHFA programs and external conditions that pose significant risks. The identified challenges are not presented in order of priority, as we believe that all are critical management or performance issues. Our report is based on OIG reports, other official reports, interviews with management, publicly available information, and our general knowledge of FHFA's programs and operations. Our analysis considers accomplishments as of September 2013.

If you have any questions, please contact Russell Rau, Deputy Inspector General for Audits, at (202) 730-0390, or Alisa Davis, Acting Assistant Inspector General, at (202) 730-0382.

cc: Richard Hornsby, Chief Operating Officer
Mark Kinsey, Chief Financial Officer
Alfred Pollard, General Counsel
John Major, Internal Controls and Audit Follow-Up Manager

The Federal Housing Finance Agency Office of Inspector General's Assessment of FY 2014 Management and Performance Challenges

In FY 2013, OIG summarized three challenges facing FHFA: (1) managing in an uncertain environment; (2) improving its management of the Fannie Mae and Freddie Mac conservatorships; and (3) adequately supervising and regulating the GSEs. The agency made progress addressing each of these challenges. For example, FHFA issued the 2013 conservatorship scorecard, which defines the agency's priorities and establishes enterprise performance goals; finalized internal guidance on more than 20 risk areas; and offered additional training for supervisory staff.

However, FHFA has not eliminated the challenges identified in FY 2013. For instance, the enterprises' ultimate fate and the broader structure of the secondary housing finance market remain undetermined, and OIG recognizes that FHFA continues to face challenges managing in this uncertain environment. Specifically, the agency must simultaneously fulfill its current responsibilities while remaining open to legislative reform ranging from eliminating the enterprises to making them permanent parts of the government.

Below, OIG elaborates on the nature of the continued challenges and discusses the agency's progress mitigating them.

1. FHFA Is Challenged to Manage in an Uncertain Environment

FHFA must effectively direct the enterprises' operations while fundamental questions about its role and theirs remain unanswered. Fannie Mae and Freddie Mac have been in conservatorships for more than five years, and they have incurred significant financial losses and received support from taxpayers totaling $187.5 billion to date. However, over the course of the last two years, the enterprises' financial conditions have improved, and they have paid $146 billion in dividends as of September 30, 2013. Nevertheless, the conservatorships do not have a specific termination date, and they will not end simply as a consequence of the enterprises' improved financial condition.

No one is sure how long the enterprises or FHFA will exist in their current form, nor does anyone know their future roles in the housing finance market. Current proposals range from eliminating the enterprises altogether to creating a federal mortgage insurance corporation. FHFA's strategic plan establishes a goal of preparing for the future of housing finance in the United States, regardless of what Congress may decide it to be; this goal of preparing for a variety of potential outcomes will represent a challenge until the related policy decisions are resolved.

Moreover, FHFA must guide the enterprises through conservatorships without being sure of enterprise and agency employee resources. This uncertainty contributes to recruitment and

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retention challenges. As an example of this, the enterprises have undergone turnover at key management positions while in conservatorships, with both Chief Executive Officers in place for just over one year. Thus, FHFA must determine how the enterprises can invest in the personnel necessary to operate effectively in the present environment. This effort, however, is further complicated by FHFA's potential competing goal of contracting the enterprises' operations, which could impede employee recruitment and retention.

Further, the agency is hampered in making long-term internal staffing allocations because it does not know what its future role will be, and in turn what its associated staffing needs will be.

2. FHFA Is Challenged to Improve Its Oversight of the Fannie Mae and Freddie Mac Conservatorships

OIG continues to identify FHFA's conservatorship operations as a management challenge. Effectively concurring in this assessment, in prepared remarks to the National Association for Business Economics on March 4, 2013, Acting Director DeMarco stated that "FHFA has overseen the largest, most complex conservatorships in history."[1]

In addition to the sheer size and complexity of the conservatorships, FHFA's responsibility as conservator has been complicated by the length of the conservatorships. In remarks to the House Committee on Financial Services in March 2013, Acting Director DeMarco stated:

> It is unprecedented that two enormous financial institutions such as these have been in conservatorship for more than four and one half years…[T]he prolonged time in conservatorship has required us to adapt to changing circumstances, while remaining consistent with the fundamental responsibilities given us.[2]

Moreover, with no end to the conservatorships in sight, it is inevitable that FHFA will have to adapt to future unforeseen developments.

Consequences of these challenging circumstances include the quality of FHFA's proactive oversight of significant enterprise business activities and decisions. OIG issued a report on September 27, 2012, that critiques FHFA's oversight of enterprise business decisions, but FHFA still has not implemented two important recommendations in that report.[3] First, FHFA has not

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[1] *Remarks of Edward J. DeMarco, Acting Director, Federal Housing Finance Agency, Before the National Association of Business Economics 29th Annual Economic Policy Conference: FHFA's Conservatorship Priorities for 2013*, pg. 4 (March 4, 2013). Accessed August 19, 2013 at www.fhfa.gov/Media/PublicAffairs/Pages/Remarks-as Prepared-for-Delivery-Edward-J-DeMarco-Acting-Director-FHFA-National-association-for-Business-Economics-.aspx.

[2] *Statement of Edward J. DeMarco, Acting Director, Federal Housing Finance Agency, Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on Oversight of the Federal Housing Finance Agency*, page 12 (November 15, 2011). Accessed October 5, 2012, at www.fhfa.gov/Media/PublicAffairs/Pages/Statement-of-Edward-J-DeMarco-Acting-Director-FHFA-Before-the-US-Senate-Committee-on-Banking-Housing-and-Urban-Affa.aspx.

[3] OIG, *FHFA's Conservator Approval Process for Fannie Mae and Freddie Mac Business Decisions* (AUD-2012-008, September 27, 2012). Available at www.fhfaoig.gov/Content/Files/AUD-2012-008.pdf.

evaluated the enterprises' internal controls, including policies and procedures, to ensure the enterprises communicate all major business decisions requiring approval to the agency. Second, the agency has not implemented a risk-based examination plan to review the enterprises' execution of and adherence to conservatorship decisions. Without an evaluation of the enterprises' controls for communicating business decisions requiring conservator approval or a rigorous review of the enterprises' compliance with its conservator approval process, the agency has little assurance that it is aware of all transactions that require its attention.

Nonetheless, OIG has observed that FHFA made the following improvements in FY 2013 related to our recommendations on its conservatorship oversight:

- Completed its reassessment of non-delegated authorities and issued revised letters of instructions to the enterprises;
- Established a governance structure at Fannie Mae for obtaining conservator approval of counterparty risk limits;
- Established a clear timetable and deadline for enterprise submission of transactions for conservator approval;
- Developed criteria for conducting business case analysis and substantiating conservator decisions;
- Issued a directive for the enterprises to notify FHFA of deviations to previously reviewed actions so FHFA may consider these changes and revisit its conservatorship decision; and
- Implemented policies and procedures for directing and approving the enterprises' settlements with counterparties that exceed $50 million.

In addition to taking actions in response to our recommendations, FHFA has taken other steps to improve oversight of the conservatorships. For example, by FHFA's 2013 conservatorship strategic priorities and goals for the enterprises, the agency listed how it will measure the enterprises' achievement of the three broad conservatorship goals. The first goal is to build a new infrastructure for the secondary mortgage market. The second goal is to contract the enterprises' dominant presence in the marketplace while simplifying and shrinking their operations. The third goal is to keep the enterprises focused on preventing foreclosures and providing mortgage credit.

The enterprises have made progress on these goals. Notably, they completed approximately 341,000 foreclosure prevention activities in FY 2013 (through May) and more than 783,000 refinances under the Home Affordable Refinance Program during the same time. In addition, Freddie Mac announced in July 2013 that it issued $500 million in bonds that it did not guarantee, a step toward achieving the goal related to contracting the enterprises' presence in the marketplace. Further, the enterprises continue to work on a common securitization platform, a key component of the first conservator goal of building a new infrastructure for the secondary mortgage market.

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In FY 2014, FHFA must remain diligent in monitoring the enterprises' progress in meeting established conservatorship goals and working towards achieving the conservatorship priorities.

3. FHFA Is Challenged to Ensure Adequate Supervision and Regulation of the GSEs

In FY 2013, OIG described three main challenges to FHFA adequately supervising and regulating the GSEs: (1) identifying new and emerging risks potentially affecting the GSEs; (2) establishing guidelines and policies governing enterprise oversight; and (3) providing strong, consistent enforcement for violations of policy. FHFA has taken positive steps to resolve—but not eliminate—the FY 2013 supervisory challenges by issuing 21 examination modules, covering critical areas such as credit risk management, derivatives, and interest rate risk management; and introducing a voluntary commissioning program to ensure its examiners meet a high professional standard of training and experience and are qualified to examine major risk areas at the GSEs. For FY 2014, however, OIG sees the scope of FHFA's supervisory coverage as an additional challenge that FHFA management must overcome.

FHFA traditionally has not consistently overseen the GSEs' management of their counterparties, and has not focused on their counterparties, such as loan sellers and servicers, that pose various risks to the GSEs. This area is especially important given the enterprises' extensive network of mortgage sellers and servicers and the FHLBanks' more than 7,600 members. The lack of FHFA oversight of such relationships fails to recognize the impact that they can have on the central mission of FHFA: ensuring the GSEs' safety and soundness. We acknowledge that many of the GSE counterparties have primary federal regulators; however, FHFA has an unique interest in the counterparties (e.g., ensuring their compliance with contractual and legal obligations) that the primary federal regulators may not understand or appreciate. Thus, relying on them to protect such interest may be imprudent.

Recent reports emphasize that the agency needs to expand the scope of its supervision to the GSEs' relationships with counterparties and their oversight of counterparties' contractual performance.

- In a March 26, 2013, report, OIG found that FHFA had not performed any reviews specific to how the enterprises monitor seller/servicer compliance with contractual and legal obligations. For example, the enterprises' seller/servicers commit to comply with all federal and state laws and regulations (including consumer protection statutes) applicable to originating, selling, and servicing loans. If a seller/servicer does not comply, the enterprises can require it to repurchase the noncompliant loan. Yet, FHFA did not monitor seller/servicer compliance with consumer protection laws. The lack of FHFA oversight becomes more troubling because OIG also found that the

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enterprises only concern themselves with compliance issues when they, as purchasers, may be liable for noncompliance.[4]

- In a March 21, 2013, report, OIG found that FHFA (and Freddie Mac) had inadequate oversight procedures to identify servicer noncompliance with the Servicing Alignment Initiative's requirements for handling certain consumer complaints. Freddie Mac's servicers handle borrower complaints and are required to report them. The more serious complaints are called "escalated cases" and can involve foreclosure actions that violate the enterprises' guidelines, complaints that borrowers were not evaluated appropriately for foreclosure alternatives, and violations of the enterprises' time frames for borrower outreach. Between October 2011 and November 2012, Freddie Mac and its eight largest servicers received over 34,000 complaints that became escalated cases. However, four of Freddie Mac's largest servicers did not report any escalated cases despite handling more than 20,000 such cases between October 2011 and November 2012. During that same period, 21% of the resolved escalated cases handled by Freddie Mac's eight largest servicers exceeded the 30-day limit. A servicer's failure to quickly and accurately resolve these escalated cases can prevent foreclosure alternatives from being adequately explored with borrowers and may result in losses to the enterprises.[5]
- In an August 22, 2013, report, OIG concluded that FHFA could improve its oversight of enterprise settlements involving both compensatory fees imposed on servicers for failure to adhere to foreclosure timelines and significant mortgage servicing rights transfers. OIG recommended that FHFA establish a review policy for such settlements similar to the one it had established in 2012 (pursuant to an OIG recommendation) for settlements of Enterprise claims against counterparties related to mortgage repurchases, mortgage insurance, or private-label mortgage-backed securities.[6]
- In a September 18, 2013, report, OIG found that Fannie Mae had, over the course of 2012, reimbursed servicers some $2.9 billion for delinquency-related expenses. Of this amount, OIG was able to determine that, due to processing errors by its contractor, Fannie Mae had made approximately $89 million in overpayments, and that it had also improperly withheld some $27 million from servicers, yielding an overall improper payments rate of 4%. OIG recommended that FHFA take measures

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[4] OIG, *FHFA Should Develop and Implement a Risk-Based Plan to Monitor the Enterprises' Oversight of Their Counterparties' Compliance with Contractual Requirements Including Consumer Protection Laws* (AUD-2013-008, March 26, 2013). Available at: http://www.fhfaoig.gov/Content/Files/AUD-2013-008_0.pdf.

[5] OIG, *FHFA's Supervisory Framework for Federal Home Loan Banks' Advances and Collateral Risk Management* (AUD-2012-004, June 1, 2012). Available at http://www.fhfaoig.gov/Content/Files/AUD-2012-004.pdf.

[6] OIG, *FHFA's Oversight of Fannie Mae's 2013 Settlement with Bank of America* (EVL-2013-009, August 22, 2013). Available at http://www.fhfaoig.gov/Content/Files/EVL-2013-009.pdf.

to reduce overpayments by identifying their root causes, creating reduction targets and ensuring supervisory accountability.[7]

- In two reports dated September 24, 2013, OIG concluded that FHFA could enhance its oversight of the enterprises' relationships with their servicers, foreclosure attorneys, and deficiency collection vendors. Thousands of foreclosures with deficiency balances were not evaluated and/or pursued for collection, because of challenges with the enterprises' counterparties coordinating and sharing foreclosure information. Prioritizing deficiencies that require prompt attention, coordinating the exchange of information among counterparties necessary to evaluate and pursue deficiencies, and monitoring counterparty relationships is key to ensuring the enterprises' deficiency management programs achieve intended results.[8]

In summary, FHFA has made important strides addressing its FY 2013 management challenges, such as developing conservatorship priorities and goals, finalizing most of its core examination manual, and offering additional training for supervisory staff. For FY 2014, OIG encourages the agency to maintain its momentum by: (1) continuing to manage in an uncertain environment; (2) improving its management of the Fannie Mae and Freddie Mac conservatorships; and (3) ensuring adequate supervision and regulation of the GSEs' relationships with their counterparties and their oversight of counterparties' contractual performance.

[7] OIG, *Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses* (EVL-2013-012, September 18, 2013). Available at http://www.fhfaoig.gov/Content/Files/EVL-2013-012.pdf.

[8] OIG, *FHFA Can Improve Its Oversight of Freddie Mac's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies* (AUD-2013-010, September 24, 2013). Available at: http://www.fhfaoig.gov/Content/Files/AUD-2013-011_0.pdf.

OIG, *FHFA Can Improve Its Oversight of Fannie Mae's Recoveries from Borrowers Who Possess the Ability to Repay Deficiencies* (AUD-2013-011, September 24, 2013). Available at: http://www.fhfaoig.gov/Content/Files/AUD-2013-011_0.pdf.

Summary of Financial Statements Audit and Management Assurances

TABLE 1: Summary of Financial Statements Audit

AUDIT OPINION	UNQUALIFIED				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

TABLE 2: Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	Unqualified					
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	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (Federal Management Financial Integrity Act Paragraph 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Erroneous Payments

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

FHFA, in the spirit of compliance and as part of a sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA has identified no activities susceptible to significant erroneous payments that meet the Act's thresholds. Additionally, FHFA pursues the recovery of all improper payments.

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 2013, the dollar amount subject to prompt payment was $73.2 million. The amount of interest penalty paid in FY 2013 was $1,537 or 0.00210 percent of the total dollars disbursed.

Appendix

- Glossary
- Acronyms
- Index of Figures
- Acknowledgements
- Federal Housing Finance Agency Key Management Officials (inside back cover)

Glossary

Advances – Core mission assets in the form of loans to member institutions.

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

CAMELSO – Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk. FHFA's new examination rating system for the regulated entities.

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

Cease and Desist Order – A directive halting certain financial activities and requires improvements to risk management policies and practices. Orders may be terminated following improvements in and entity's financial condition, capital position, and resolution of risk management concerns.

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

Common Securitization Platform – New utility being developed under the direction of FHFA that will replace the Enterprises' current proprietary systems.

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

Consolidated Obligations – A term for the joint obligations of the 12 FHLBanks. Consolidated obligations are debt instruments that are sold to the public through the Office of Finance but are not guaranteed by the U.S. government.

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

Enterprise(s) – Fannie Mae and Freddie Mac.

Enterprise Risk – Includes enterprise credit risk, market risk, and operational risk.

Forbearance Plans – An agreement between the servicer and the borrower (or estate) to reduce or suspend monthly payments for a defined period, after which the borrower resumes regular monthly payments and pays additional money toward the delinquency to bring the account current; or works with the servicer to identify a permanent solution, such as loan modification or short sale, to address the delinquency.

Foreclosure – A legal process dictated by state law in which the mortgaged property is sold to pay off the mortgage of the defaulting borrower. A foreclosure has a greater negative impact than a short sale.

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

Government Sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks.

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

Home Affordable Refinance Program (HARP) – A home retention program that focuses on mortgages Fannie Mae and Freddie Mac already hold in their portfolios or guarantee through their mortgage-backed securities. It provides unique flexibilities on the level of credit enhancement required on loans with loan-to-value ratios greater than 80 percent. Borrowers who are current on their mortgages can refinance into a lower mortgage payment or more sustainable mortgage without requiring additional credit enhancement—generally private mortgage insurance.

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

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

National Mortgage Database (NMDB) – A system that will allow mortgage participants to have a national representation of the performance of first lien mortgages. The NMDB will eventually provide risk analysis and performance data of mortgages throughout the United States. This is a joint venture between FHFA and the Consumer Financial Protection Bureau.

Operating Risk – The risk of possible losses resulting from inadequate or failed internal processes, people, and systems or from external events.

Permanent Capital – The sum of common stock, preferred stock, and retained earnings.

Preferred Stock Purchase Agreement (PSPA) – PSPAs ensure that the Enterprises maintain a positive net worth so they can continue to be active suppliers of housing finance. The agreements are ongoing, explicit, and irreversible contractual commitments of the federal government ensuring that Fannie Mae and Freddie Mac can meet their obligations and maintain a positive net worth.

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

Reports of Examination (ROEs) – During each calendar year, FHFA complete ROEs for each of the 12 FHLBanks and the Office of Finance (OF) and presents them to their respective boards of directors. The scheduling of examination fieldwork and the review of ROEs may vary from one year to the next.

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

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

Short Sale – A sale of real estate in which the proceeds do not satisfy the full balance owed on the property's loan. A short sale is normally a preferred alternative to a foreclosure.

Supervisory Rating – FHFA has established four rating levels for supervisory concerns: (1) no or minimal concerns, (2) limited concerns, (3) significant concerns, and (4) critical concerns. These ratings describe how well risks are identified, measured, monitored, controlled, and managed. No or minimal concerns have very minor weaknesses or criticisms that affect the Enterprise's safety and soundness, while critical concerns involve a consent order or formal agreement between FHFA and the Enterprise to ensure that appropriate corrective action is taken.

Structured Agency Credit Risk (STACR) – A risk-sharing security developed by Freddie Mac.

Total Capital – The sum of permanent capital, the par value of Class A stock outstanding, a general allowance for losses, and the amount of any other instruments identified in an FHLBank's capital plan that FHFA has determined to be available to absorb losses.

Undercapitalized – A state of hindered operation for an FHLBank resulting from limited amounts of capital.

Underwriting Standards – The process a lender uses to determine whether the risk of lending to a particular borrower under certain parameters is acceptable. Most of the risks and terms underwriters consider fall under the three C's of underwriting: credit, capacity, and collateral.

Acronyms

AGA	Association of Government Accountants
AHP	Affordable Housing Program
AMA	Acquired Member Assets
AOCI	Accumulated Comprehensive Income
BOA	Bank of America
C&D	Cease and Desist
CDF	Contractual and Disclosure Framework
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CIP	Community Investment Program
CSI	Common Securitization Infrastructure
CSP	Common Securitization Platform
CSRS	Civil Service Retirement System
CSS	Common Securitization Solutions, LLC™
CY	Calendar Year
DBR	Division of FHLBank Regulation
DCO	Derivatives Clearing Organization
DER	Division of Enterprise Regulation
DOL	U. S. Department of Labor
DTA	Deferred Tax Assets
ECIC	Executive Committee on Internal Controls
EESA	Emergency Economic Stabilization Act of 2008
EIC	Examiner in Charge
FAAS	Financial Accounting and Advisory Services
Fannie Mae	Federal National Mortgage Association
FAR	Financial Activities Review
FASAB	Federal Accounting Standards Advisory Board
FCM	Futures Commission Merchant
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FBWT	Fund Balance with Treasury
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank

FICO	Fair Isaac Corporation
FINSOB	Financial Stability Oversight Board
FIRREA	The Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FISMA	Financial Information Security Management Act
FMFIA	Federal Managers Financial Integrity Act of 1982
FMS	Federal Management System
FOIA	Freedom of Information Act
Freddie Mac	Federal Home Loan Mortgage Corporation
FSOC	Financial Stability Oversight Council
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
Ginnie Mae	Government National Mortgage Association
GSE	Government-Sponsored Enterprise
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
HPI	House Price Index
HUD	U.S. Department of Housing and Urban Development
ICP	Incentive Compensation Plan
IG	Inspector General
IT	Information Technology
LIBOR	London Interbank Offered Rate
LPI	Lender-placed Insurance
LLC	Limited Liability Company
LTV	Loan to value
MBS	Mortgage-Backed Securities
MIMSO	Mortgage Industry Standards Maintenance Organization
MHA	Making Homes Affordable (Program)
MRA	Matter Requiring Attention
MSR	Mortgage Servicing Rights
MVE	Market Value of Equity
MWOBs	Minority-and-Women-Owned Businesses
NMDB	National Mortgage Database Initiative

OCC	U.S. Office of the Comptroller of the Currency
OCO	Office of Conservatorship Operations
OF	Office of Finance
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Women and Minority Inclusion
OPM	Office of Personnel Management
OTC	Over the Counter
PACE	Property Assessed Clean Energy
PCA	Prompt Corrective Action
PII	Personal Identifiable Information
PLMBS	Private-Label Mortgage-Backed Securities
PLS	Private Label Securities
POA&Ms	Plan of Action and Milestones
PRISM	Procurement Request Information System Management
PSPA (s)	Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
REO	Real Estate Owned
RFI	Request for Information
RHS	Rural Housing Services
ROE	Reports of Examination
SA&A	Security Assessment and Authorization
SAI	Service Alignment Initiative
SBR	Statement of Budgetary Resources
SEC	Securities Exchange Commission
SIFI	Strategically Important Financial Institutions
SPEC	Strategic Plan for Enterprise Conservatorships
SPSPA	Senior Preferred Stock Purchase Agreement
STACR	Structured Agency Credit Risk
TARP	Troubled Asset Relief Program
TSP	Thrift Savings Plan
UBS	Union Bank of Switzerland
UMDP	Uniform Mortgage Data Program
UMSD	Uniform Mortgage Servicing Database
URLA	Uniform Residential Loan Application
VA	Veterans Administration

Index of Figures

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