Federal Housing Finance Agency

FISCAL YEAR 2014
Performance and Accountability Report

FHFA's Mission, Vision, and Values

Mission

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

Vision

A reliable, stable, and liquid housing finance system.

Values

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

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

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

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

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Melvin L. Watt

Message from the Director

I am pleased to issue the Federal Housing Finance Agency's (FHFA) Performance and Accountability Report for fiscal year 2014. FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System, which includes 12 Banks and the Office of Finance. The agency's mission is to ensure that these regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac.

This report addresses FHFA's activities as regulator of the Federal Home Loan Bank System and as regulator and conservator of Fannie Mae and Freddie Mac from October 1, 2013 through September 30, 2014 and meets the requirements of the Government Performance and Results Modernization Act of 2010.

The report also provides information about the fiscal year 2014 financial statements for FHFA. For the sixth consecutive year, FHFA received an unmodified (clean) audit opinion on its financial statements from the U.S. Government Accountability Office (GAO). FHFA has no material internal control weaknesses and the financial and performance data contained in this report are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

Sincerely,

Melvin L. Watt
Director, Federal Housing Finance Agency
November 17, 2014

Management's Discussion and Analysis

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About the Federal Housing Finance Agency

1. Background on FHFA's Statutory Obligations

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System, which includes the 12 Banks and the Office of Finance. The agency's mission is to ensure that these regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac.

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

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

"(B) to ensure that—

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

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

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

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

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

12 U.S.C. § 4513(a)(1).

FHFA's Role as Conservator of Fannie Mae and Freddie Mac. As part of the Safety and Soundness Act, Congress granted the Director of FHFA the discretionary authority to appoint FHFA as conservator or receiver of Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks, upon determining that specified criteria had been met. On September 6, 2008, FHFA exercised this authority and placed Fannie Mae and Freddie Mac into conservatorships. Since they were placed into conservatorships, Fannie Mae and Freddie Mac together have received $187.5 billion in taxpayer support under the Senior Preferred Stock Purchase Agreements (PSPA) executed with the U.S. Department of the Treasury. FHFA continues to oversee these conservatorships.

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

"(D) ...take such action as may be—

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

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

12 U.S.C. § 4617(b)(2)(D).

Carrying on the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1). Additionally, under the Emergency Economic Stabilization Act of 2008 (EESA), FHFA has a statutory responsibility in its capacity as conservator to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of… available programs to minimize foreclosures." 12 U.S.C. § 5220(b)(1).

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

2. Background on the Regulated Entities

The Enterprises

Fannie Mae and Freddie Mac were created by Congress in 1938 and 1970 respectively to provide stability and liquidity in the secondary market for home mortgages. The Enterprises purchase single-family mortgages that lenders have already made to homeowners. These mortgages are pooled into mortgage-backed securities (MBS), guaranteed by the Enterprise, and either sold to investors or kept by the Enterprise as an investment (see Figure 1). The Enterprises also purchase multifamily mortgages, and each Enterprise uses a different model of credit risk sharing for these purchases. Fannie Mae uses loss-sharing transactions through a delegated underwriting system. Freddie Mac uses a capital markets execution that transfers the bulk of its credit risk.

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

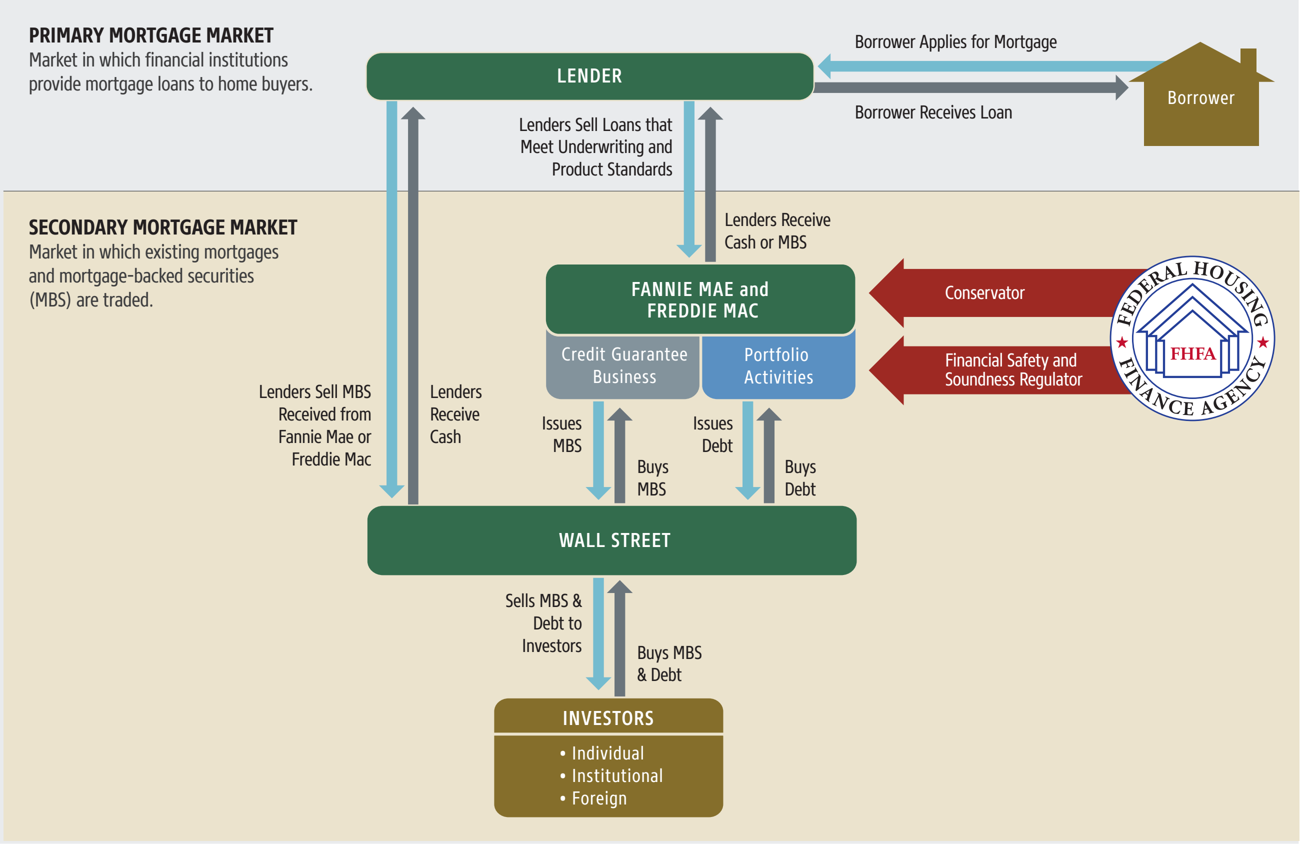
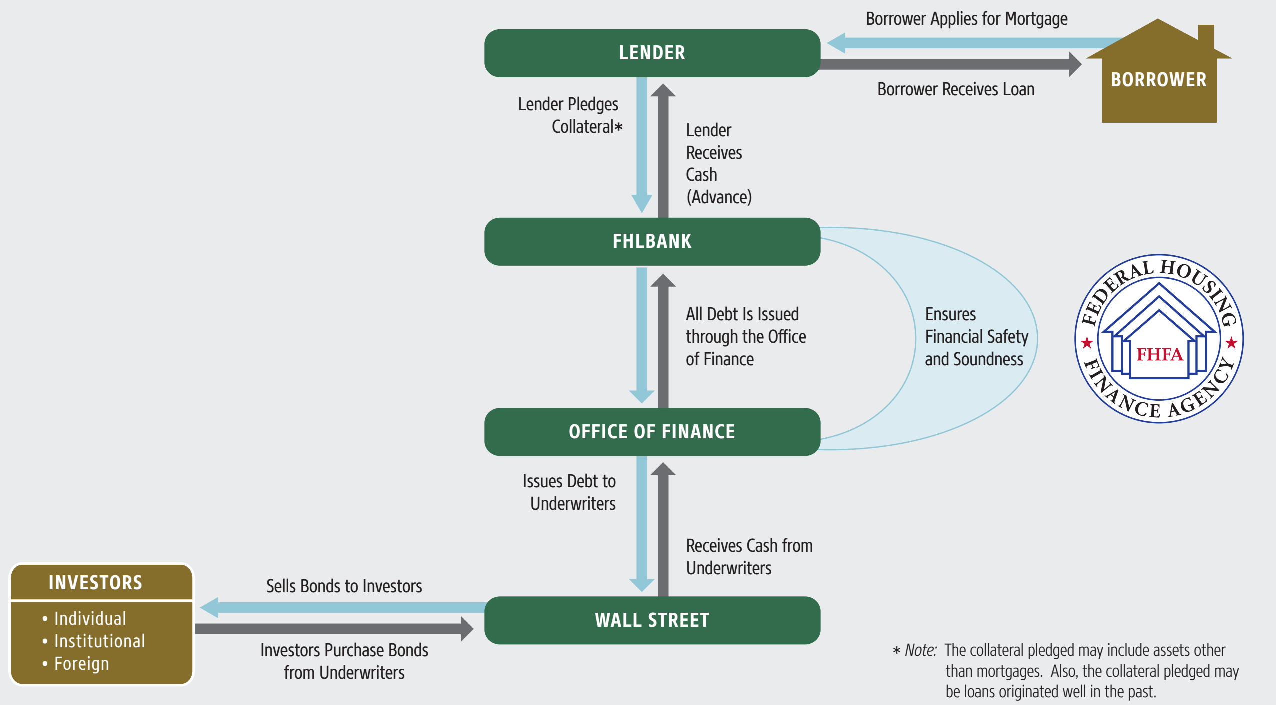


FIGURE 2: FHFA Oversight Role – FHLBanks



As noted above, FHFA exercised its authority to place Fannie Mae and Freddie Mac into conservatorships on September 6, 2008. FHFA continues to oversee these conservatorships.

Federal Home Loan Banks (FHLBanks)

Congress passed the *Federal Home Loan Bank Act* (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. FHLBanks make loans, known as advances, to member institutions. These advances increase the availability of credit for residential mortgages. At the end of fiscal year 2014, there were 7,353 FHLBank members made up of commercial banks, thrifts, credit unions, insurance firms, and community development financial institutions (see Figure 2).

3. 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 agency operated with a budget of $199.5 million in FY 2014 and ended the year with 584 employees. The FHFA-OIG operated with a budget of $48 million in FY 2014 and ended the year with 145 employees. The budgets for FHFA and FHFA-OIG remain flat in FY 2015 at $199.7 million and $48 million respectively. In FY 2015 FHFA's budget will support 630 positions, with the majority of future hires bolstering the examinations and other mission areas of the agency. The FHFA-OIG FY 2015 Budget will continue to support 145 positions (see Figure 3).

The 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 strategic goals. FHFA's principal organizational units are shown in Figure 4.

FIGURE 3: FHFA Employees (by specialized area)

	As of 9/30/2014	
	FY 2014 Year-End	2015 Budgeted
Examinations	264	287
Other Mission	131	145
Office of the Director	31	32
Legal	41	42
Information Technology	48	50
Infrastructure	69	74
Total	584	630
Total FHFA-OIG	**145**	**145**

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

The Office of the 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 the Inspector General. The office leads reporting on strategic planning and accountability.

The Division of Enterprise Regulation (DER) is responsible for the supervision of the Enterprises—Fannie Mae and Freddie Mac—to evaluate the safety and soundness of their operations. DER contributes to the achievement of FHFA's strategic and performance goals through: planning and executing examinations of the Enterprises; developing and preparing the annual reports of examination; issuing supervision policy; providing examiner training; and developing accounting guidance and risk analysis. The division also provides support and advice to the Agency on supervisory issues, development of FHFA policy, and internal FHFA management activities.

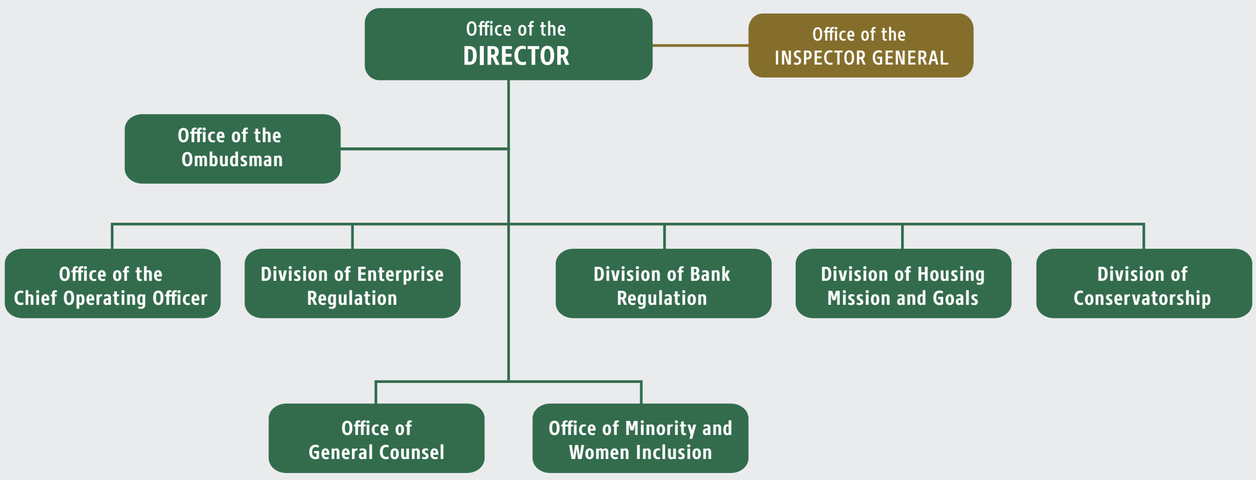
The Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervising the FHLBanks and the Office of Finance to ensure their safe and sound operations. The division oversees and directs all FHLBank examination activities, develops examination findings, and prepares annual examination 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. The division establishes supervisory policy and regulation for the Banks and conducts FHLBank-focused research. DBR also conducts Affordable Housing Program (AHP) on-site examinations and visits each FHLBank annually to ensure compliance with program regulations and to evaluate the effectiveness of each FHLBank's AHP program.

The Division of Housing Mission and Goals (DHMG) 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 involving data analyses, and analysis affecting housing finance and financial markets.

The Division of Conservatorship (DOC) assists the FHFA Director, as conservator, in preserving and conserving the Enterprises' assets and property. The division facilitates communications between the Enterprises and the conservator to ensure the prompt identification of emerging issues and their timely resolution. The division also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorships. Additionally, the division leads, coordinates, and clarifies agency and Enterprise activities related to FHFA's 2014 Conservatorship Strategic Plan.

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

FIGURE 4: FHFA Principal Organization Units



The Office of Minority and Women Inclusion (OMWI) is responsible for all matters of the agency relating to diversity in management, employment and business activities, as well as for monitoring and assessing the diversity and inclusion practices of its regulated entities. OMWI also evaluates the agency's Equal Employment Opportunity (EEO) program to determine its effectiveness and recommend comprehensive improvements in the EEO program's implementation and execution.

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.

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.

4. What FHFA Provides

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

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

FHFA's mission is to ensure that the regulated entities are operating in a safe and sound manner and serving as a reliable source of liquidity and funding for housing finance and community investment. To ensure that the regulated entities are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition. FHFA accomplishes this mission through on-site examinations and off-site monitoring of each of the regulated entities. FHFA also oversees the regulated entities' efforts to support housing finance market liquidity by providing credit availability for new and refinanced mortgages. Additionally, the regulated entities play a significant role in supporting multifamily housing needs, particularly for low-income households, and FHFA works to oversee these activities as well.

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. Since they were placed into conservatorships, Fannie Mae and Freddie Mac together have received $187.5 billion in taxpayer support under the Senior Preferred Stock Purchase Agreements (PSPA) executed with the U.S. Department of the Treasury. As of September 30, 2014, the Enterprises have paid over $218 billion in cumulative cash dividends to the Treasury Department and, thus, to taxpayers.

Increasing Transparency in the Housing Finance Markets

FHFA promotes the dissemination of information that will improve the public's understanding of housing finance markets and the regulated entities. For example, FHFA publishes an indicator of single-family house price trends at various geographic levels called the House Price Index (HPI). The HPI provides the public with accessible and timely house price information to estimate the current value of a house based on the appreciation rate of home values in an area, changes in the rates of mortgage defaults, prepayment rates, and housing affordability in specific geographic areas. Additionally, 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 and other loan modification programs, delinquent homeowners are able to obtain a loan modification that can lower their monthly payment and permit them to remain in their homes.

FHFA works collaboratively to increase access to HARP, HAMP, and other loan modification programs for qualified borrowers. FHFA and the Enterprises are working to target HARP outreach efforts in markets with the highest incidence of borrowers who would benefit from HARP refinancing. The website *www.HARP.gov* is an important tool in the agency's outreach efforts. Additionally, FHFA directed the Enterprises to develop a Neighborhood Stabilization Initiative (NSI) to target loss mitigation efforts in communities that have been hardest hit by the housing downturn.

Building a Shared Single-Family Securitization Infrastructure

Building a new infrastructure for the securitization functions of the Enterprises remains an important priority for FHFA. As part of this multiyear effort, FHFA, Fannie Mae and Freddie Mac are working to design and develop the Common Securitization Platform (CSP), including the capability of issuing a Single Security, so it can serve as the new infrastructure for most of the Enterprises' current securitization functions. When fully developed, the CSP will: (1) verify certain aspects of the data related to a pool of mortgages; (2) support the issuance of mortgage-backed securities, either backed by pools of loans or by other securities; (3) publish required disclosures related to the securities and pools of loans, both at issuance and on an on-going basis over the life of the securities; (4) perform aspects of master servicing that are amenable to automation and straight-through processing; and (5) perform certain bond administration functions.

Ongoing development of the CSP will focus on making the new shared system operational for existing Enterprise single-family securitization activities. In addition, FHFA also expects the CSP to leverage industry-standard interfaces, industry software, and industry data standards, where possible, so the CSP could be adaptable for additional market participants in the future. Although considerable progress has been made in building the CSP, FHFA expects this project to be a multiyear effort.

Performance Summary

Strategic Goals and Performance Goals

The four Strategic Goals and the nine Performance Goals from FHFA's *Fiscal Years 2013–2017 Strategic Plan* are presented below. The associated performance measures and targets are presented in the "Summary of Performance Measures" on pages 22–23.

Alignment of Resource Allocation by Strategic Goals

FHFA tracks the cost of support functions under its Resource Management Strategy. These costs are distributed proportionately among the different strategic goals based on the percentage of direct costs of each goal compared to total direct costs for FHFA. FHFA-OIG costs are included under FHFA's Resource Management Strategy.

Since the Strategic Goal structure described above is two years old, the actual costs expended and Full-Time Equivalent staff (FTEs) working on each strategic goal are shown for FY 2013 and FY 2014.

Performance and Budget Integration

To improve resource planning, the agency integrates the annual performance planning process with the development of the budget. This process allows the agency to assess the costs, systems, and initiatives associated with the achievement of each goal. The agency accomplishes its mission primarily by:

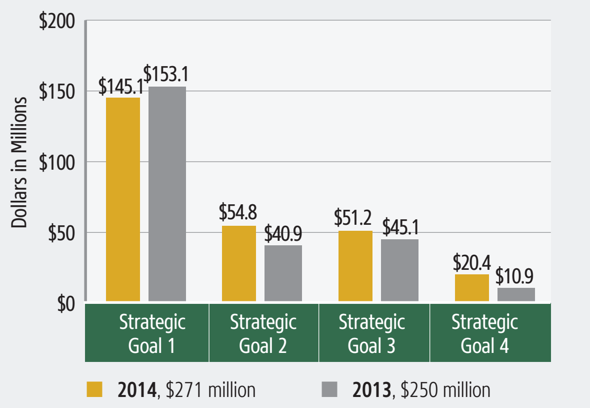
- Examining the regulated entities,
- Monitoring their progress in completing their remediation plans,
- Assessing their capital adequacy,
- Overseeing the conservatorships of Fannie Mae and Freddie Mac,
- Preserving and conserving Enterprise assets,
- Overseeing activities by the regulated entities to provide liquidity and community investment,
- Setting and enforcing affordable housing goals,
- Monitoring credit and financial market conditions,

FIGURE 5: FHFA's Strategic and Performance Goals

- Engaging in agency rulemaking and publication of supervisory guidance,
- Researching and analyzing the regulated entities and the housing markets, and
- Promoting and ensuring diversity and inclusion of minorities and women in the business and activities of FHFA and the regulated entities.

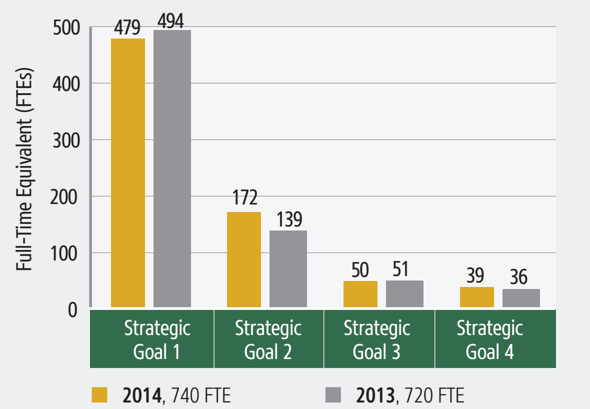
The following two charts (Figures 6 and 7) reflect actual gross costs expended and the number of FTE's working on each strategic goal.

FIGURE 6: Actual Gross Costs Expended (in Millions) FY 2013–2014



Note: Includes OIG

FIGURE 7: Actual Full-Time Equivalent (FTE) FY 2013–2014



Note: Includes OIG

Performance Highlights by Strategic Goal

STRATEGIC GOAL 1 Safe and Sound Housing GSEs

FHFA Completes 2013 Report of Examinations for the Regulated Entities

- **Report of Examinations of the Enterprises**
  The conservatorships of the Enterprises combined with Treasury's financial support have stabilized the Enterprises, but have not restored them to a sound financial condition. The Enterprises remain exposed to credit, counterparty and operational risks. Credit risk management remains a key priority for both Enterprises given their substantial amount of remaining legacy distressed assets and ongoing stress in certain housing markets. While each Enterprise continues to have significant exposure to credit losses from mortgages originated in the several years prior to conservatorship, they had record amounts of net income in 2013 totaling $132.7 billion, largely due to releases of reserves, reversals of asset value writedowns, and litigation settlements. In 2014, Enterprise earnings have been much lower.

  The U.S. Department of the Treasury provides the Enterprises with financial support through Senior Preferred Stock Purchase Agreements (PSPAs). Through year-end 2013, the Enterprises' cumulative draws under the PSPAs totaled $187.5 billion. The Enterprises have paid over $218 billion in cumulative cash dividends to Treasury through September 2014.

- **Report of Examinations of the FHLBanks**
  The financial condition and performance of the FHLBanks were stable in 2013, with the FHLBanks reporting earnings level with 2012, and with all FHLBanks reporting profits. Asset quality among the FHLBanks was generally adequate in 2013, although a few FHLBanks exhibited higher than average levels of risk or had risk-management practices that were of greater concern. Private-label mortgage-backed securities continued to present the largest credit risk at the FHLBanks, though they presented substantially less than in prior years. The FHLBanks were adequately governed and exhibited satisfactory operational risk management overall, though examiners identified several areas where they could improve. Mortgage assets continue to be sensitive to market risk. All Banks consistently met their liquidity and regulatory capital requirements during the year.

FIGURE 8: CAMELSO: A uniform rating system

FHFA's examiners use a uniform rating system for Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

The examiners assign a common composite rating from 1 (best - the lowest degree of supervisory concern) to 5 (worst - the highest level of supervisory concern) based on an evaluation of various aspects of each regulated entity's operations. The composite rating is based on an evaluation and rating of seven components.

CAMELSO Component Assessments

Capital	Sufficiency of capital relative to each regulated entity'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 regulated entity
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 in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect the regulated entity's earnings or economic capital
Operational risk	Exposure to loss from inadequate or failed internal processes, people, and systems

Update on Financial Condition of the FHLBanks (FY 2014)

Total FHLBank advances increased during FY 2014 to $544.6 billion as of September 30, 2014 from $465.1 billion a year earlier. All but two of the FHLBanks reported increases in advance balances over this period. The financial condition of the FHLBanks remained stable and every FHLBank was profitable during the fiscal year, continuing a trend from the 4th quarter of 2011. Retained earnings continued to grow System-wide, reaching $13.0 billion as of September 30, 2014.

The FHLBanks' capital is redeemable at par; therefore, the market value of each FHLBank's equity (MVE) should be at or above the par value of its capital stock (PVCS). MVE is a point-in-time measure of the market value of a firm's outstanding 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 using the MVE/PVCS ratio. This effectively compares the market value of FHLBank equity to the capital contributed by member institutions. A ratio significantly below 1.0 may indicate poor FHLBank condition and an inability of the FHLBank to prudently repurchase or redeem its capital stock at par. The MVE/PVCS ratio exceeded 1.0 at all FHLBanks this year, with eight FHLBanks reporting ratios of 1.30 or higher as of September 30, 2014. During 2014, the ratios increased at all but two FHLBanks, and the ending ratios for those FHLBanks were far above 1.0.

Completion of the FHFA Examination Manual

In December 2013, FHFA completed and issued the FHFA Examination Manual, which is publically available on the FHFA website.[1] The purpose of the FHFA Examination Manual is to provide comprehensive guidance on the examination process and all areas of risk management and to establish standards and communicate expectations of those standards to examiners and the regulated entities. The new manual has been used for the 2014 examinations.

The FHFA Examination Manual is comprised of the Examination Program Overview and 25 modules. The Examination Program Overview consists of a description of the examination program, including FHFA's examination ratings system (CAMELSO) and the examination findings categories, and it gives background information on the regulated entities and a description of their primary business activities. The Examination Program Overview also describes the examination activities at the regulated entities and the work products that examiners produce, and provides guidance on examination documentation and record management requirements. It also provides a policy overview, including the FHFA Enforcement Policy, and examination authorities.

In addition to the Examination Program Overview, the FHFA Examination Manual also contains 25 examination modules, which are organized by line of business or activity. These modules provide guidance, examination instruction, and work programs addressing all areas of risk management, including market, credit, operational, and model risk.

The content of the FHFA Examination Manual will be reviewed regularly and updated as needed in order to provide current guidance to the regulated entities and FHFA examiners and supervision staff.

FHFA Strengthens Enterprise Management of Mortgage Servicing Transfers

As part of guidance on managing counterparty risk, FHFA issued AB-2014-06 *Mortgage Servicing Transfers Advisory Bulletin* on June 11, 2014. This Advisory Bulletin applies to Fannie Mae and Freddie Mac and communicates standards and supervisory expectations for risk management practices in conjunction with the sale and transfer of Mortgage Servicing Rights, (MSR) which involve the transfer of the operational responsibilities of servicing mortgage loans owned or guaranteed by the Enterprises.

The Mortgage Servicing Transfers Advisory Bulletin provides guidance describing how each Enterprise should develop policies and procedures for reviewing and approving the sale and transfer of MSRs or the transfer of the servicing of mortgage loans. Based on this guidance, the Enterprises are expected to only approve mortgage servicing transfer transactions that are consistent with sound business practices, aligned with each Enterprise's board-approved risk appetite, and in compliance with regulatory and Conservator requirements. The Advisory Bulletin lays out standards

1 *http://www.fhfa.gov/SupervisionRegulation/ExaminerResources/Pages/Manual-and-Supplemental-Guidance.aspx*

for the Enterprises to thoroughly analyze financial, operational, and legal and compliance risk factors before approving transactions. Furthermore, the guidance indicates that the Enterprises should have a risk-based process to monitor the execution of the transfers so that all servicing transfers occur in a timely manner and in accordance with approved terms, servicing guide requirements, and applicable mortgage servicing transfer-related laws and regulations.

Mission Orientation of the FHLBanks

FHFA has a Core Mission Activities regulation (12 C.F.R. § 1265.2) that describes the mission of the FHLBanks as providing financial products and services to members and housing associates (principally state housing finance agencies) that assist and enhance those institutions' financing of housing and community lending. Advances have historically been the primary mission asset of the FHLBanks, although the Core Mission Activities regulation includes some other types of assets, such as mortgage loans that qualify as Acquired Member Assets (AMA), in the definition of core mission activities.

With growth in System advances, advances represented almost 67 percent of FHLBank consolidated obligations as of September 30, 2014, up from 64 percent a year earlier. When including other on-balance-sheet activities defined in FHFA's core mission activities regulation in addition to advances, the ratio was 72 percent.

FHFA Seeks Public Feedback on Proposed Changes to FHLBank Membership Rule

In September 2014, FHFA proposed a rule that would revise the requirements for financial institutions to apply for and retain membership in one of the 12 Federal Home Loan Banks. The proposed changes to FHFA's existing FHLBank membership regulations are intended to ensure that members maintain a commitment to housing finance and to define the eligible entities that can gain access to FHLBank advances and the benefits of membership.

Under current regulation, at the time they apply for membership, all applicants need to demonstrate that they "make long-term home mortgage loans." The proposed rule would establish a quantitative test for meeting this requirement and apply that requirement on an ongoing basis. Certain types of depository-institution applicants (defined by statute) must currently show that at least 10 percent of their assets consist of "residential mortgage loans." The proposed rule would also apply this requirement on an ongoing basis. FHFA also proposed to define "insurance company" to mean a company that has as its primary business the underwriting of insurance for nonaffiliated persons. This would continue to include traditional insurance companies but would effectively exclude captive insurers from membership and prevent entities not eligible for membership from gaining access to Bank advances through a captive insurer. Membership of existing captive insurers would be "sunset" over five years with defined limits on advances.

FHFA encourages all stakeholders and the public to submit comments on this proposed rulemaking, and FHFA will accept comments on the proposed rule until January 12, 2015. As part of its rulemaking process, FHFA will thoroughly review the comment letters and the issues that they raise before deciding on further action.

Loss Mitigation and Foreclosure Prevention Activities

Since entering conservatorship, the Enterprises continue to focus extensively on loss mitigation and borrower assistance activities. As of August 31, 2014, the Enterprises had conducted more than 3.3 million foreclosure prevention actions since the start of the conservatorships in September 2008. This year, continuing work to prevent foreclosures and mitigate losses, FHFA launched a Neighborhood Stabilization Initiative (NSI); conducted targeted outreach activities to increase consumer awareness of the Home Affordable Refinance Program (HARP); and expanded and streamlined the Enterprises' loan modification programs to help keep borrowers in their homes.

- **Neighborhood Stabilization Initiative (NSI)**

  The Neighborhood Stabilization Initiative, announced in May 2014, supports FHFA's objective to refine and improve servicing and foreclosure prevention standards. The NSI program was developed by FHFA and the Enterprises to target and stabilize neighborhoods hardest hit by the housing crisis. Although the Enterprises' inventory of real estate owned (REO) properties is declining to pre-crisis levels in some states, in certain areas of the country inventory continues to increase or remains near historic highs. Some markets continue to have large concentrations of distressed and low-value REO properties as well as large volumes of long-term delinquent loans. Those markets continue to present unique challenges, including high vacancy rates, weak for-sale markets, and steep home-price declines.

  To address those challenges, the Enterprises are partnering with the National Community Stabilization Trust (NCST), a national non-profit organization experienced in stabilization efforts for distressed communities. Working together, they are collaborating with community organizations, non-profits, and local governments to make timely and informed decisions about the best treatment of individual properties.

  The three primary goals of the NSI are to: (1) increase the number of families able to stay in their current homes through loan modifications; (2) effectively match distressed properties with responsible non-profits for property renovation and resale; and (3) assist distressed communities in executing their building demolition plans. The program features pre-foreclosure strategies that include deeper loan modifications than the Enterprises have traditionally offered, as well as targeted resolution efforts that might include the conveyance or sale of delinquent notes to non-profits if modification efforts are unsuccessful. Post-foreclosure strategies involve partnering with non-profits earlier in the Enterprises' REO disposition process to help speed neighborhood recovery. For post-foreclosure properties, the program considers an array of neighborhood stabilization options such as transitioning properties to non-profits through low-value sales paired with financial incentives, pursuing targeted donations or demolition efforts, and auction sales.

- **HARP Outreach Activity**

  The Home Affordable Refinance Program (HARP), introduced in 2009 as part of the Administration's Making Home Affordable program, is a key way in which the Enterprises support their mission of ensuring credit availability for refinanced mortgages. HARP gives borrowers whose mortgages are owned or were securitized by the Enterprises, and who have little or no home equity but are current on their mortgage payments, the opportunity to refinance into mortgages with more affordable payments. In light of initial experience with the program, FHFA expanded HARP in several ways in 2011, including removing the 125 percent loan-to-value (LTV) ratio ceiling, waiving certain representations and warranties, and extending the end date for HARP to December 31, 2015.

  The changes in 2011 led to a surge in program activity throughout 2012 that resulted in more than one million HARP refinances for that year, an amount equal to activity over the prior three years. In April 2013, FHFA extended HARP through December 31, 2015 and launched a public outreach campaign to increase HARP awareness and encourage borrowers to take advantage of the program, including establishing the website *www.HARP.gov* to help reach more homeowners who might be eligible for the program. As of August 2014, HARP refinances since program inception totaled 3.2 million.

- **Standard and Streamlined Modification Enhancements**
  Since the start of the foreclosure crisis, FHFA has worked with the Enterprises to develop programs that help borrowers stay in their homes. As the crisis persisted, FHFA continued to enhance the Enterprises' loss mitigation tools that support home retention, when appropriate, and minimize credit losses to the Enterprises and taxpayers. Since 2008, FHFA has launched various programs and initiatives aimed at creating common, consistent, and simplified approaches for loss mitigation.

  In efforts to keep borrowers in their homes, the agency continued its Streamlined Modification Initiative and expanded its Standard and Streamlined Modification programs to include loans with LTV ratios of less than 80 percent. Streamlined Modifications respond to documentation challenges associated with traditional modifications by reducing documentation requirements for certain eligible borrowers who are more than 90 days delinquent on their mortgage payments. The agency will continue to work with the Enterprises to modify and enhance their toolbox of products that servicers can use to help keep borrowers current on their mortgages.

Enterprises – Provision of Liquidity

Fannie Mae and Freddie Mac maintain a consistent market presence by providing lenders with a constant source of liquidity for single-family and multifamily mortgage products, even when other sources of financing are scarce. During 2013, Freddie Mac purchased or issued guarantee commitments for $422.7 billion in single-family conforming mortgage loans, representing approximately 2.1 million homes. Also during 2013, Freddie Mac's multifamily new business activity totaled $25.9 billion, which provided financing for nearly 1,600 properties with nearly 388,000 apartment units.

During 2013, Fannie Mae purchased or issued guarantee commitments for $768 billion in single-family conforming mortgage loans, enabling borrowers to refinance 2.6 million mortgages and complete 1.0 million home purchases. Also during 2013, Fannie Mae's multifamily new business activity totaled $28.8 billion, which provided financing for over 3,000 properties with approximately 507,000 apartment units.

In the first nine months of 2014, Freddie Mac purchased or issued guarantee commitments for $184.3 billion of unpaid principal balance (UPB) of single-family conforming mortgage loans, representing approximately 884,000 homes. Freddie Mac also provided funding for multifamily loans totaling over $14 billion in UPB. Fannie Mae also provided approximately $305.8 billion in liquidity to the mortgage market through purchases and guarantees of loans and securities, resulting in approximately 672,000 mortgage refinancings and approximately 643,000 home purchases, along with providing multifamily financing for approximately 289,000 units of rental housing.

Affordable Housing Finance

Each year, FHFA sets housing goals for mortgages purchased by Fannie Mae and Freddie Mac, with separate categories and benchmarks for single-family and multifamily mortgages on housing that is affordable to low-income and very low-income households, among other categories. The annual housing goals are one measure of the extent to which the Enterprises are meeting their public purposes. FHFA's evaluation of the Enterprises' performance in reaching the 2013 goals is still underway, but it has preliminarily determined that both Enterprises met their low and very-low income multifamily housing goals, but that each Enterprise fell short of reaching some of their single-family housing goals.

Seller Representation and Warranty Framework Enhancements

During the last several years, FHFA has worked to improve the seller Representation and Warranty Framework (Framework) used by the Enterprises. The improvements to the Framework implemented in January 2013 provided repurchase relief on certain underwriting representations and warranties after 36 on-time monthly payments.

In addition, refinements to the Framework were announced in May 2014 and became effective beginning in July 2014. As a result, the Enterprises now notify lenders directly of relief when it is granted, which occurs at the earlier of the borrower fulfilling the payment history requirement or the Enterprise performing a quality control review with a positive outcome. Additionally, the payment history requirement for granting relief was revised to allow no more than two 30-day late payments in the 36-month period. Lastly, automatic repurchases for mortgage insurance coverage rescissions were also eliminated; instead, the Enterprises now review such loans for eligibility and allow alternatives to repurchase when Enterprise standards are met. In 2014, FHFA continued to develop additional enhancements to the Framework, including greater clarity for the life-of-loan exclusions to the repurchase relief granted on underwriting representations and warranties, and additional dispute resolution mechanisms.

FHFA Seeks Public Feedback on Proposed Private Mortgage Insurance Eligibility Requirements (PMIERS)

FHFA required the Enterprises to update and align counterparty risk management standards for mortgage insurers (MI), including uniform master policies and eligibility requirements. An MI master policy sets the terms of business between an MI and a seller/servicer counterparty. Master policies are approved by state regulators and must be determined to be acceptable by the Enterprises. An Enterprise's MI eligibility requirements set the criteria and terms an MI must meet to insure loans that are eligible for purchase by the Enterprises.

FHFA and the Enterprises made considerable progress toward developing the new MI master policies and eligibility requirements. The joint team developed master policies for each MI and the Enterprises issued approval letters to each MI company for master policies that were approved by all state regulators. The new master policies took effect on October 1, 2014. Additionally, on July 10, 2014, FHFA released the draft MI eligibility requirements for public input, which represents a unified conceptual framework for mortgage insurer eligibility. In developing the draft requirements, FHFA, Fannie Mae, and Freddie Mac consulted with state insurance commissioners and private mortgage insurers that are approved to do business with either Enterprise. When finalized, the updated, aligned MI eligibility requirements being developed by the Enterprises will establish uniform risk management standards for MIs, leading to a more stable mortgage market. The new risk management standards will include financial strength standards that will require MIs to demonstrate adequate resources to pay claims when due; performance metrics and thresholds that, if breached, will trigger Enterprise remediation; and standards for the MIs' quality control processes.

FHFA Works to Enhance Loan Servicing Standards, Including Implementation of Consumer Financial Protection Bureau Standards

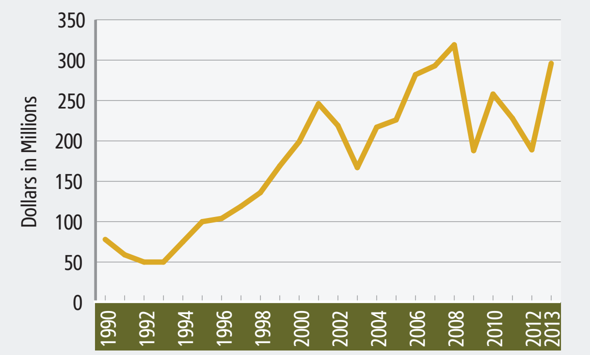
The extraordinary rise in delinquent mortgages since the onset of the mortgage crisis and resulting need for expanded capacity for servicing non-performing loans has precipitated unprecedented growth in specialty servicing. FHFA is working with the Enterprises to enhance servicer eligibility standards that address the risks associated with emerging servicer business models.

In October 2013, the Enterprises issued servicing requirements in response to the Consumer Financial Protection Bureau 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 Wall Street Reform and Consumer Protection Act of 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 were effective on January 10, 2014.

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 2013, the FHLBanks allocated $297 million to their AHP programs for the purchase, construction, or rehabilitation of over 37,800 housing units (see Figure 9).

FIGURE 9: FHLBanks' AHP Statutory Contributions 1990–2013



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 2013, CIP housing advances totaled approximately $2.7 billion and CIP economic development advances totaled about $25.4 million.

STRATEGIC GOAL 3 Preserve and Conserve Enterprise Assets

FHFA Settles 13 Private-Label Mortgage-Backed Securities (PLS) Lawsuits in FY 2014

As conservator of Fannie Mae and Freddie Mac, FHFA is charged by the Housing and Economic Recovery Act of 2008 with preserving and conserving those companies' assets. In September 2011, FHFA, as conservator for the Enterprises, pursuant to its duty to preserve and conserve, filed lawsuits against 18 financial institutions, certain of their officers and various unaffiliated lead underwriters. The suits alleged violations of federal and state securities laws and common law in the sale of residential private-label mortgage-backed securities to the Enterprises.

During FY 2014, 13 of those lawsuits were successfully concluded through out-of-court settlements, resulting in over $16.7 billion in net payments to the Enterprises for the settlements (see Figure 10).

When added to the payments to the Enterprises in connection with prior PLS lawsuits previously settled out of court, FHFA has obtained approximately $18 billion in net PLS litigation settlements for the Enterprises.

FIGURE 10: PLS Litigation Settlements, FY 2014

Financial Institution	Amount/Notes
HSBC North American Holdings, Inc. (Hong Kong Shanghai Banking Corp.)	$550 million
Goldman Sachs & Co.	$1.2B (out of $3.15B payment that included bond purchases)
RBS Securities, Inc.	$99.5 million (resolved claim in Ally Financial case; main RBS lawsuit ongoing)
Barclays Bank PLC	$280 million
First Horizon National Corporation	$110 million
Bank of America Corp., Merrill Lynch & Co., Countrywide Financial Corp. combined	$5.83B (out of $9.33B payment that included bond purchases)
Credit Suisse Holdings (USA) Inc.	$885 million
SG Americas (Societe Generale)	$122 million
Morgan Stanley	$1.25B
Ally Financial, Inc.	$475 million
Deutsche Bank AG	$1.925B
JP Morgan Chase & Co.	$4B
Total	**$16.7 B**

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

FHFA Issues 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac

In May 2014, FHFA published the 2014 Conservatorship Strategic Plan and the 2014 Conservatorship Scorecard. The 2014 Strategic Plan and 2014 Scorecard outlined three strategic goals: 1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets; 2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and 3) build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

FHFA Continues to make Progress in the Development of the Common Securitization Platform (CSP)

In FY 2014, the Enterprises made progress toward the completion of the building and internal testing of the core components of the CSP. As detailed in the 2014 Conservatorship Strategic Plan and 2014 Conservatorship Scorecard, FHFA is focused on ensuring that the CSP fills the needs of Fannie Mae and Freddie Mac to carry out most of their current securitization functions.

During FY 2014, the Enterprises and CSP team also completed the following tasks towards developing the CSP:

- Implemented the functionality for non-securitized whole loans (both to on-board such loans and to provide master servicing operations),
- Substantially developed the Master Servicing Operations module,
- Built numerous new system interfaces, including interfaces related to pool and servicer reporting, collapsing pools, dissolving security requests, and servicer transfers,
- Developed a calculation service to be used by multiple CSP modules, and
- During FY 2014, the Enterprises and the CSP team have also incorporated work on the Single Security into the development of the CSP.

Development and testing will continue in FY 2015. In addition, Enterprise-specific configurations required for the CSP and the Enterprises' own integration plans will continue beyond FY 2014.

Enterprises Increase Risk Sharing Transactions

FHFA's 2014 Conservatorship Strategic Plan's goal of reducing taxpayer risk builds on the Enterprises' previous risk transfer efforts. During FY 2014, FHFA worked with the Enterprises to expand the volume and types of transactions that transfer single-family mortgage credit risk from the Enterprises to the private sector. FHFA set a target of transferring a substantial portion of credit risk on $90 billion of unpaid principal balance of new mortgage-backed securitizations. FHFA also set the expectation that each Enterprise execute a minimum of two different types of transactions. Both Enterprises are on track to meet or exceed their goals by completing significant risk sharing transactions that included four Structured Agency Credit Risk (STACR) notes transactions (Freddie Mac), various reinsurance transactions, and three Connecticut Avenue Securities transactions (Fannie Mae).

Summary of Performance Measures

For FY 2014, FHFA identified 26 measures to help evaluate and measure FHFA's progress towards the goals stated in its Strategic Plan. The indicators are presented here relative to the strategic goal and performance goal that they support. The following table lists each measure and whether the target was met, partially met or not met. Beginning in January 2014, the agency has undertaken an assessment of its strategic goals and this work impacted some goal results as explained more fully in the Performance Section and reflected in the summary below.

STRATEGIC GOAL 1	Safe and Sound Housing GSEs	
Performance Goal 1.1: Identify risks and require timely remediation of weaknesses		
1.1.1	Develop supervisory strategies and examination plans for 2014 that cover key risks for the Enterprises, FHLBanks and the Office of Finance	Met
1.1.2	Communicate supervisory results, findings and expectations for remedial actions to the Enterprises, FHLBanks and the Office of Finance within established timeframes	Met
1.1.3	Issue standards and criteria to the regulated entities for risk management in the areas of operational and liquidity risk	Met
Performance Goal 1.2: Improve the condition of the regulated entities		
1.2.1	FHFA performs risk-based examination work at the Enterprises, FHLBanks and the Office of Finance and identifies areas of weakness and supervisory concern (according to specified metrics)	Met
1.2.2	In response to examination findings, evaluate the effectiveness of remedial actions taken by the Enterprises and the FHLBanks (by specific timeline)	Partially Met
1.2.3	Finalize Examination Manual for examination of all regulated entities, covering major areas of risk management (credit, market, operational, and model risk)	Met
1.2.4	Each FHLBanks' Market Value of Equity (MVE) to par ratio	Met

STRATEGIC GOAL 2	Stability, Liquidity, and Access in Housing Finance	
Performance Goal 2.1: Promote stability and mitigate systemic risk that could lead to market instability		
2.1.1	Maintain the rate of HARP refinances	Partially Met
2.1.2	Reduce the volume of seriously delinquent loans which includes all loans in the process of foreclosure plus loans that are three or more payments delinquent	Met
2.1.3	Distressed borrowers receive sustainable loan modifications	Met
2.1.4	Reduce the volume of REO properties	Met
Performance Goal 2.2: Ensure liquidity in mortgage markets		
2.2.1	Increase the average single-family guarantee fees charged by the Enterprises	Not Met
2.2.2	Complete beta testing for launching the National Mortgage Database	Not Met
Performance Goal 2.3: Expand access to housing finance for diverse financial institutions and borrowers		
2.3.1	Increase access to the secondary market for rural and community based lenders	* Baseline

* Baseline Year - New indicator/No Prior Year Data Available

STRATEGIC GOAL 3	Preserve and Conserve Enterprises' Assets	
Performance Goal: 3.1 Minimize taxpayer losses during the Enterprises' conservatorships		
3.1.1	Maintain executive management and board oversight by ensuring replacement of Executive Vice Presidents and above and board members	Met
3.1.2	2014 Conservatorship Scorecard provided to the Enterprises (by specific timeline)	Not Met
3.1.3	Draft of 2015 Conservatorship Scorecard provided to Enterprise management for planning and budgeting purposes (by specific timeline)	Not Met

STRATEGIC GOAL 4	Prepare for the Future of Housing Finance in the U.S.	
Performance Goal 4.1: Build a new infrastructure for the secondary mortgage market		
4.1.1	Completion of the build and internal testing of the Common Securitization Platform	Partially Met
4.1.2	Establishment of an Enterprise joint venture to develop and operate the Common Securitization Platform (by specific timeline)	Not Met
4.1.3	Inform the public through dissemination of FHFA publications on housing and housing finance markets	Partially Met
Performance Goal 4.2: Establish standards that promote a safer and more efficient housing finance system		
4.2.1	Complete development of plans to standardize origination data and uniform mortgage servicing data, leveraging the MISMO process. Establish timeline to implement data collection	Partially Met
4.2.2	Enterprises publish new eligibility standards for mortgage insurers (by specific timeline)	Not Met
4.2.3	Produce model contractual agreements for credit risk transfer transactions	Met
Performance Goal 4.3: Contract enterprise operations		
4.3.1	Reduction in related portfolio consistent with the Preferred Stock Purchase Agreement	Met
4.3.2	Reduction in retained portfolio (exclusive of agency securities) through sales	Met
4.3.3	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	Met

Summary of Key Performance Indicators

One way that Federal agencies evaluate the success of their programs is by using performance indicators. In many agencies, hundreds of performance indicators are identified and tracked to assist in improving program results, or identifying courses of action. However, in many cases, only a few Key Performance Indicators (KPI) are needed to determine an agency's overall progress in achieving its goals. In addition to identifying measures that are critical to achieving strategic goals and objectives, KPIs can also be used as a gauge as to what is deemed important to the management of the agency.

FHFA has identified the following four KPIs as measures of how well the Enterprises are meeting key objectives of FHFA's Strategic Plan—identify and reduce risk, assist distressed borrowers, increase access to the secondary markets, and increase risk sharing with the private sector. The KPIs are presented under the specific Strategic and Performance Goal that they impact, and, in FY 2014, FHFA met three KPIs. FY 2014 was the baseline year for the fourth KPI. Additional information on each key indicator is provided in the "Performance Section" of this PAR which begins on page 44.

STRATEGIC GOAL 1	Safe and Sound Housing GSEs	
Performance Goal 1.2: Improve the condition of the regulated entities		
1.2.1	FHFA performs risk-based examination work at the Enterprises, FHLBanks and the Office of Finance and identifies areas of weakness and supervisory concern	**FY 2014 Target** *Enterprises: Onsite work completed by 3/31/2014* *FHLBanks: 100% of the time*
	FY 2014 Results	Met

STRATEGIC GOAL 2	Stability, Liquidity, and Access in Housing Finance	
Performance Goal 2.1: Promote stability and mitigate systemic risk that could lead to market instability		
2.1.3	Distressed borrowers receive sustainable loan modifications	**FY 2014 Target** *70% of permanent modifications are current and performing 6 months after modification*
	FY 2014 Results	Met

STRATEGIC GOAL 2	Stability, Liquidity, and Access in Housing Finance	
Performance Goal 2: Expand access to housing finance for diverse financial institutions and qualified borrowers		
2.3.1	Increase access to the secondary market for rural and community based lenders	**FY 2014 Target** *Increase from prior year*
	FY 2014 Results	Baseline Year*

STRATEGIC GOAL 4	Prepare for the Future of Housing Finance in the U.S.	
Performance Goal 4.3: Contract enterprise operations		
4.3.3	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	**FY 2014 Target** *1Q FY 2014*
	FY 2014 Results	Met

Looking Ahead to FY 2015

As part of the agency's mission to ensure the safety and soundness of the regulated entities and to ensure that they serve as a reliable source of liquidity and funding for housing finance and community investment, FHFA continues to adapt and respond to emerging issues in the housing finance markets. This includes FHFA's responsibility as the conservator of Fannie Mae and Freddie Mac and working with their reconstituted boards of directors to define the operational goals of the Enterprises and to oversee management in fulfilling these goals.

As the agency continues its work in fiscal year 2015, FHFA will continue to address the following issues and priorities. FHFA uses its performance management framework to build upon and sustain the progress the agency has made toward achieving its goals.

Implementing FHFA's Strategic Plan for FY 2015 through 2019

FHFA developed a draft FHFA Strategic Plan: FY 2015–2019 for public input during FY 2014, and the Strategic Plan is expected to be finalized and released later this year. The plan released for public input sets forth three strategic goals for the agency:

- Ensure Safe and Sound Regulated Entities,
- Ensure Liquidity, Stability and Access in Housing Finance, and
- Manage the Enterprises Ongoing Conservatorships.

FHFA's strategic plan reflects the agency's priorities as regulator of the Federal Home Loan Bank System and as regulator and conservator of the Enterprises. The plan also reflects the priorities outlined for the Enterprises in the 2014 Conservatorship Strategic Plan, which the agency released in May. The agency will continue to build a strong, diverse and cohesive team committed to the efficient achievement of FHFA's strategic goals.

Oversight of the Enterprises

FHFA continued to provide transparency of its strategic guidance to the Enterprises by publishing the 2014 Conservatorship Strategic Plan. This plan is accompanied by an annual Conservatorship Scorecard, which serves as a yearly implementation guide for the Enterprises.

As stated in FHFA's 2014 Conservatorship Strategic Plan, the agency's first strategic goal is to "Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets." Under this goal, FHFA will work to ensure that the Enterprises operate in a safe and sound manner and provide liquidity to a national housing finance market. For example, FHFA will work with the Enterprises to clarify the Representation and Warranty Framework to provide greater certainty and support the safe and sound operations of the Enterprises. A second, related strategic goal is to "Reduce taxpayer risk through increasing the role of private capital in the mortgage market." FHFA will continue to direct the Enterprises to transfer risk via credit risk-sharing transactions, require that their main counterparties demonstrate sufficient financial strength, and reduce their retained portfolios in accordance with the PSPAs. The third strategic goal, to "Build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future," has at its core the development of improved securitization capability utilizing consistent data standards that will promote safe and sound operations.

Some of the challenges facing FHFA in its oversight of the Enterprises include the following:

Continuing Loss Mitigation and Foreclosure Prevention Activities

To help borrowers stay in their homes and reduce future losses to the Enterprises, FHFA will continue to undertake key loss mitigation and foreclosure prevention activities in many areas, such as the HARP outreach activities, state housing finance agencies initiatives, HAMP and related loan modification activity, and other efforts to refine and improve loss mitigation and foreclosure prevention activities. Going forward, FHFA will also continue to expand implementation efforts for targeted non-performing loan strategies and Real Estate Owned property sales that facilitate neighborhood stabilization, especially in the hardest hit markets.

Clarifying the Representation and Warranty Framework

The Seller Representation and Warranty Framework (Framework) comprises the set of rules under which lenders and the Enterprises do business with each other. In particular, they provide the rules by which the Enterprises can require lenders to repurchase loans. A lack of clarity in these rules has contributed to lenders imposing credit overlays that drive up the cost of lending and also restrict lending to borrowers with less than perfect credit scores or with less conventional financial situations.

To address this situation, FHFA will continue to work with the Enterprises to clarify the Framework to provide greater certainty about the Framework and facilitate lending throughout the Enterprises' existing credit box. The Enterprises will continue to place emphasis on upfront quality reviews and related risk management practices that provide early feedback on the quality of loans delivered to the Enterprises. FHFA worked with the Enterprises to develop additional guidance on the life of loan exclusions to clarify when loans will qualify for repurchase relief. FHFA is also working with stakeholders to identify cure mechanisms and alternative remedies for lower-severity loan defects. In addition, FHFA is working with the Enterprises to provide independent dispute resolution options for fair, timely and cost-effective resolutions.

Progressing on the Development of the Common Securitization Platform and Single Enterprise Security

Building a new infrastructure for most of the single-family securitization functions of the Enterprises and improving the liquidity of Enterprise single-family securities are important priorities for the agency.

The Common Securitization Platform (CSP), which is being developed jointly by the Enterprises, is a multi-year project. Most of the software needed for the Platform's core functionality has been put in place and extensive testing is underway. In FY 2015, the CSP team will focus on implementation of remaining software components, building out of the operational infrastructure (inclusive of operational controls, policies and procedures, and other similar items needed prior to the system being ready to move to production), and continued testing. Similarly, in FY 2015, both Enterprises will continue with their internal system design, build and test activities to connect with the CSP.

To improve the liquidity of the Enterprises' mortgage securities, FHFA will also work with the Enterprises to develop a Single Security. For the Single Security, in FY 2015, FHFA will focus on two related activities. First, based on the comments received on the "Request For Input" (RFI) issued in August 2014, FHFA will work with the Enterprises to further define the Single Security features and characteristics. As part of this effort, FHFA will review and respond, as appropriate, to the RFI comments. FHFA will also provide numerous opportunities for continued stakeholder, industry and public input. Second, the Enterprises and the CSP team, as part of the efforts noted above, will continue to refine the CSP implementation and the Enterprises' CSP integration plans to adjust, as necessary, for the Single Security.

Oversight of the Federal Home Loan Banks (FHLBanks)

With continuing changes in the mortgage market, the FHLBanks are working to adapt to the realities of the current marketplace. As the regulator of the FHLBanks, FHFA will continue to oversee the FHLBanks and to ensure that they continue to focus on their housing finance and community investment mission while also operating in a safe and sound manner.

Potential Merger of Two FHLBanks

In July 2014, the FHLBanks of Des Moines and Seattle announced their intention to merge, and in late September, the FHLBanks executed a Definitive Agreement outlining details of the planned merger. If completed, this will be the first voluntary merger of FHLBanks in the System's history, bringing the total number of FHLBanks down from 12 to 11. In 2011, FHFA adopted a regulation addressing voluntary mergers among the Federal Home Loan Banks, establishing a regulatory approval process for merging two or more FHLBanks. FHFA has worked and will continue to work with the FHLBanks to provide clarification on a number of issues related to the merger. Given the fundamental changes that have occurred in the financial system since the creation of the FHLBank System, FHFA views this potential merger as consistent with the System's mission and with the safe and sound operation of each FHLBank.

Longer-Term Prospects for Advance Demand are Uncertain for Some FHLBanks

The principal asset and mission activity of the FHLBanks is advances, which are collateralized loans to member institutions. FHLBank advances have increased overall in recent years but demand remains soft, and there are pockets of low advance activity in some FHLBank districts. Cyclical factors affect demand for advances, including regional or national economic health, the level of member deposits, and the demand for loans at the member level. Non-cyclical factors, such as consolidation and movement among member institutions, and changes to regulatory standards, also affect demand for advances. Changes to demand often occur asymmetrically across FHLBanks, and some FHLBanks may experience more challenges with their advance franchises than other FHLBanks.

Maintaining a Mission Focus for the FHLBanks

Clearly demonstrating that the FHLBanks are achieving their core mission remains an important issue for FHFA, and FHFA will continue its supervision and oversight to ensure that the FHLBanks are focused on their housing finance and community development mission. These efforts include ongoing discussions regarding core mission activities, proposed revisions to the FHLBank membership regulations, as well as a review of the Affordable Housing Program regulation.

- **Core Mission Activities**
  Last year, FHFA initiated a discussion with the FHLBanks about core mission activities, asking the 12 FHLBanks to develop mission assets plans as addenda to their current strategic plans. An important focus of the ongoing dialogue is on the FHLBanks' use of the benefits of the funding advantage they receive from being Government Sponsored Enterprises for housing finance and community development purposes.

- **Membership Rule**
  Congress established eligibility criteria for FHLBank membership in the Bank Act, identifying the types of institutions eligible for membership and further requiring, among other things, that members must "make long-term home mortgage loans." (The regulation deems an institution to meet the statutory requirement if it purchases or originates home mortgages with a term to maturity of five or more years.)

  In September 2014, FHFA proposed a rule that would revise the requirements for financial institutions to apply for and retain membership in one of the 12 Federal Home Loan Banks. The proposed changes to FHFA's existing FHLBank membership regulations are intended to ensure that members maintain a commitment to housing finance and to define the eligible entities that can gain access to FHLBank advances and the benefits of membership. FHFA encourages all stakeholders and the public to submit comments on this proposed rulemaking, and FHFA is accepting comments on the proposed rule until January 12, 2015. As part of its rulemaking process, FHFA will thoroughly review the comment letters and the issues that they raise before deciding on further action.

Affordable Housing Program

As part of their overall mission to support financing for housing and community investment, the Bank Act requires each of the FHLBanks to establish an Affordable Housing Program (AHP) to help finance the construction, purchase, or rehabilitation of housing. The AHP has operated for almost 25 years. From 1990 through 2013, the FHLBanks allocated more than $4.4 billion in subsidies under the AHP competitive application and homeownership set-aside programs. As of year-end 2013, the Banks had assisted the purchase, construction, or rehabilitation of more than 724,000 housing units.

FHFA is conducting an evaluation of the AHP regulation as part of its regulatory review process. The agency has sought input from the FHLBanks, their Community Investment Officers, Advisory Councils, and other stakeholders to help identify features of the AHP that should be retained and those that should be reconsidered. FHFA will continue this evaluation in 2015.

Financial Summary

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 2014 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 2014 and 2013. Financial statements and notes for fiscal years 2014 and 2013 appear on pages 68–89. Highlights of the financial information presented in the principal financial statements are shown below.

Financial Statements Summary

Condensed Balance Sheets *(dollars in thousands)*		FY 2014		FY 2013	Percent Change
Fund Balance with Treasury	$	12,161	$	15,914	-24%
Investments	$	63,951	$	71,907	-11%
Accounts Receivable, Net	$	100	$	14	614%
Property, Equipment, and Software, Net	$	30,994	$	39,426	-21%
Prepaid Expenses	$	1,109	$	851	30%
Total Assets	$	108,315	$	128,112	-15%
Accounts Payable	$	10,209	$	11,183	-9%
Other Liabilities	$	9,078	$	4,432	105%
Unfunded Leave	$	11,291	$	11,175	1%
Deferred Lease Liability	$	25,814	$	24,805	4%
Total Liabilities	$	56,392	$	51,595	9%
Cumulative Results of Operations	$	51,923	$	76,517	-32%
Total Net Position	$	51,923	$	76,517	-32%
Total Liabilities and Net Position	$	108,315	$	128,112	-15%

Condensed Net Costs *(dollars in thousands)*		FY 2014		FY 2013	Percent Change
Gross Cost	$	271,456	$	249,971	9%
(Less: Earned Revenue)	$	(239,258)	$	(229,390)	4%
Net (Income from)/Cost of Operations	$	32,198	$	20,581	56%

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.

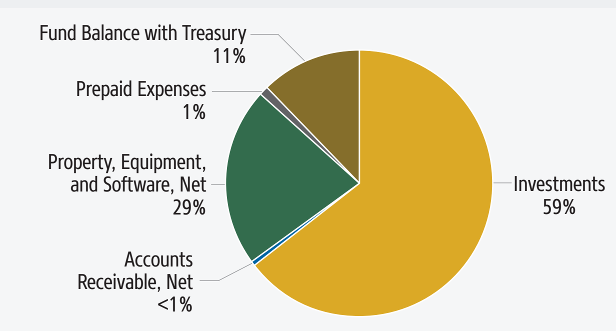
Assets

The Balance Sheet reflects total assets of $108.3 million, a 15 percent decrease from FY 2013. Figure 11 summarizes FY 2014 total assets by component. FHFA's distribution of assets remains largely unchanged from FY 2013.

When grouped together, Investments and Property, Equipment, and Software comprise 88 percent and 87 percent of total assets for 2014 and 2013, respectively. Investments remain FHFA's largest asset class, representing 59 percent of total assets. FHFA has the authority to invest in U.S. Treasury securities, which are normally held to maturity and carried at amortized cost. FHFA invested in one-day certificates issued by the U.S. Treasury. Investments equaled $64.0 million at fiscal year-end and decreased 11 percent from FY 2013. The second largest asset class is Property, Equipment, and Software at $31.0 million as of September 30, 2014, or 29 percent of FHFA's total assets.

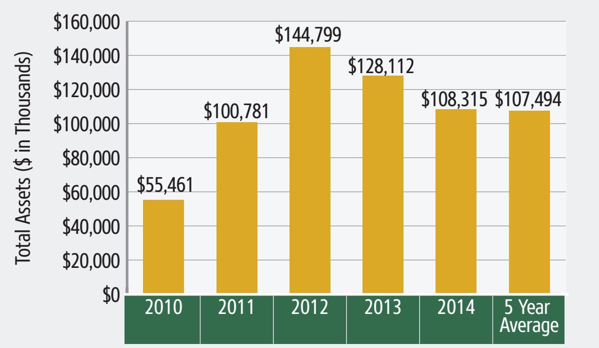
The remainder of FHFA's assets is comprised of Fund Balance with Treasury, accounts receivable, and prepaid expenses.

FIGURE 11: Distribution of Total Assets, FY 2014



The annual trend in FHFA's total assets for FY 2010 through FY 2014 is presented in Figure 12. FHFA's total assets have almost doubled since FY 2010 due to leasehold improvements and furniture, fixtures, and equipment purchases associated with FHFA's new location at Constitution Center (Washington, DC), the addition of the Inspector General's Office, and an increase in FHFA's overall budgetary resources.

FIGURE 12: Trend in Total Assets, FY 2010–FY 2014



Liabilities

As of September 30, 2014, FHFA's total liabilities amounted to $56.4 million, a 9 percent increase from FY 2013. Figure 13 summarizes the FY 2014 total liabilities by component. Deferred Lease Liability continues to be the largest component of total liabilities at 46 percent. Deferred Lease Liability consists 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 (Washington, DC) and 5080 Spectrum Drive (Dallas, Texas). The next largest liability, Unfunded Leave, amounted to $11.3 million. FHFA's Accounts Payable and Other Liabilities equal $19.3 million at fiscal year-end, up 24 percent from FY 2013.

The annual trend in total liabilities for FY 2010 through FY 2014 is presented in Figure 14. FHFA's total liabilities have been relatively constant over the last three years. The significant jump occurred in FY 2012 reflecting an increase in budgetary resources and deferred lease liabilities associated with leasing agreements for Constitution Center (Washington, DC).

FIGURE 13: Distribution of Total Liabilities, FY 2014

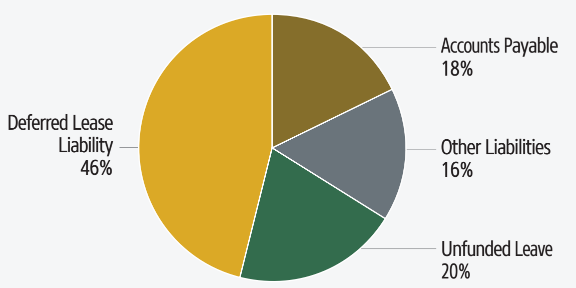
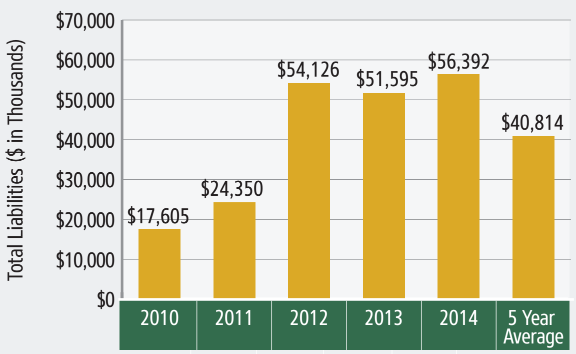


FIGURE 14: Trend in Total Liabilities, FY 2010–FY 2014



Net Position

FHFA's net position of $51.9 million as of September 30, 2014, represents the cumulative net excess of FHFA's revenue over the cost of operations since inception.

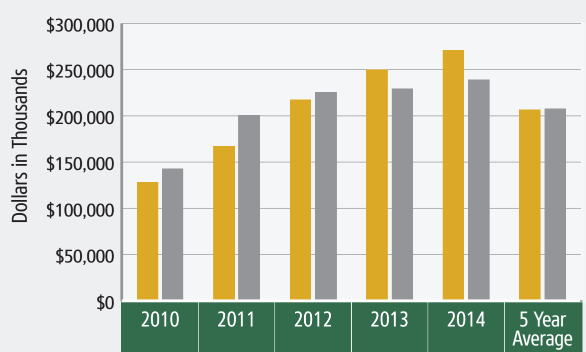
Statement of Net Cost

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 Fannie Mae and Freddie Mac and the 12 Federal Home Loan Banks. 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. All of the FHFA-OIG costs are allocated to FHFA's Resource Management Strategy.

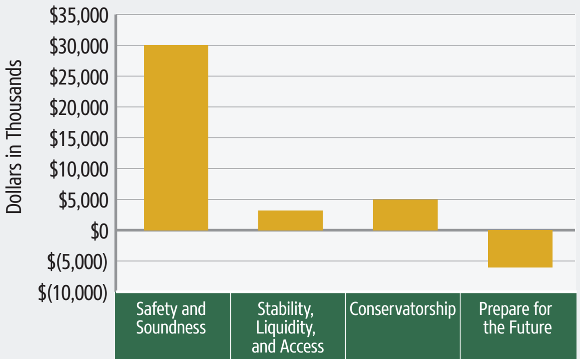
FHFA's net cost of operations is the revenue collected during the current fiscal year (assessments collected from the regulated entities, interest earned on investments, and funds collected from reimbursable agreements) less gross costs (all funds expended during a fiscal year regardless of when the funds were obligated). The net cost of operations in FY 2014 for FHFA totaled $32.2 million as compared to $20.6 million in FY 2013. FHFA's gross costs exceeded earned revenue for FY 2014 and 2013 due to timing differences. Goods and services are budgeted and obligated for a specific year. Additionally, revenue is collected for that year. However, if all or part of the costs are paid in the following year, a timing difference exists between costs and revenues. The five-year trend in FHFA's gross costs and revenue from FY 2010 through 2014 is presented in Figure 15. Figure 16 displays the breakdown of net cost of operations by strategic goal for FY 2014.

FIGURE 15: Trend Gross Costs and Revenue, FY 2010–FY 2014



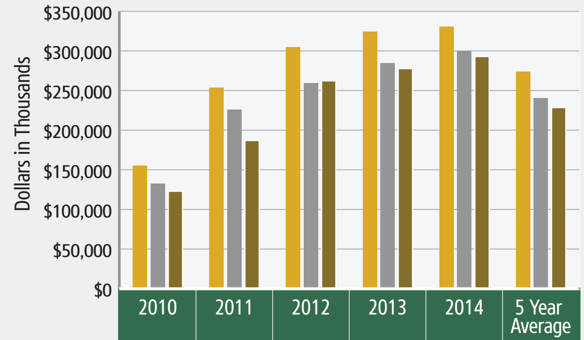
	2010	2011	2012	2013	2014	5 Year Average
Gross Costs	$128,564	$167,401	$217,501	$249,971	$271,456	$206,979
Revenue	$143,202	$200,783	$225,933	$229,390	$239,258	$207,713

FIGURE 16: Net (Income from)/Cost of Operations by Strategic Goal, FY 2014



	Safety and Soundness	Stability, Liquidity, and Access	Conservatorship	Prepare for the Future
Net (Income from)/Cost of Operations	$30,072	$3,191	$4,975	$(6,040)

FIGURE 17: Trend in Budgetary Resources, Obligations Incurred, and Gross Outlays, FY 2010–FY 2014



	2010	2011	2012	2013	2014	5 Year Average
Budgetary Resources	$155,551	$253,568	$304,635	$324,123	$330,891	$273,754
Obligations Incurred	$132,808	$225,896	$259,100	$284,684	$299,984	$240,494
Gross Outlays	$122,948	$186,945	$262,252	$277,649	$292,935	$228,546

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, 2014, decreased $24.6 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, 2014 and 2013. 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 $330.9 million in total budgetary resources for the 12 months ended September 30, 2014. The two 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 five percent to $300.0 million. Gross outlays (actual payments made) increased six percent to $292.9 million. FHFA's five-year trend in budgetary resources, obligations incurred, and gross outlays is reflected in Figure 17.

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 costs 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 12 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 $234.9 million during FY 2014, which included a $41.6 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 Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Analysis of Systems, Controls and Legal Compliance

Federal Managers' Financial Integrity Act

During FY 2014, FHFA adhered to the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls (ECIC) met quarterly to oversee internal controls and provide recommendations to the FHFA Director on the effectiveness of FHFA's internal controls.

In 2014, 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 Housing Mission and Goals, the General Counsel, and the Deputy Director for Division of Conservatorship. 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 2014, pursuant to the obligations and spirit of 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 using a risk based approach adapted from 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 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, 2014 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, co-chaired by the Deputy Inspector General for Audit and the Chief of Staff, and established a senior assessment team 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 2014, 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 Acting Inspector General sign an assurance statement to the FHFA Director recommending an unqualified statement of assurance relative to the three areas assessed by the FHFA-OIG: internal control over financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations.

Federal Management Information Systems and Strategy

Section 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 the Fiscal Services for its accounting services and that agency's financial management system (FMS) which includes (1) a core accounting system—Oracle Federal Financials; (2) four feeder systems—PRISM (procurement), GovTrip/Concur (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 the Fiscal Services' performance of accounting services for the agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of the Fiscal Services. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of 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/Concur 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.

As in previous years, FHFA's Information Security Program activities continued to reflect improvements of the Agency's security posture through continuous monitoring and automation. 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 2014 information security program activities included updating information security policies and procedures, performing annual security control assessments of FHFA information systems, including the Agency's Financial Management System (FMS), updating the vulnerability management program, conducting independent penetration testing, 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.

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 FY 2014 FISMA audit of the FHFA information security program, which was completed in September 2014.

The FHFA-OIG operates its own network, systems and related information security programs that are independent from those of the agency. The FHFA-OIG conducted an independent evaluation of its information security program 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 NIST guidance. The independent external auditor identified two findings with eight recommendations to assist FHFA in strengthening its information security program. During FY 2014, FHFA closed all 19 of the prior year FISMA recommendations.

For the FHFA-OIG 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) guidance. The independent external auditor identified two findings with five recommendations to assist FHFA-OIG in strengthening its information security program. During FY 2014, FHFA-OIG closed 31 of 34 prior year FISMA recommendations and has a Plan of Action & Milestones (POA&M) in place to remediate the remaining recommendations. The remediation of prior year recommendations mitigated the risks cited in FY 2013 that collectively represented a significant deficiency for the FHFA-OIG information security program.

The corrective actions taken by the FHFA and the FHFA-OIG will be reviewed and verified by the auditor during the FY 2015 FISMA audits. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA-OIG information security programs.

Summary of FHFA Evaluations

Program evaluation is a systematic method for collecting, analyzing, and using information to answer questions about projects, policies and programs—particularly about their effectiveness and efficiency. Stakeholders often want to know whether the programs they are funding and implementing are producing the intended effect. While program evaluation first focuses around this definition, important considerations often include how much the program costs per participant, how the program could be improved, whether the program is worthwhile, whether there are better alternatives, if there are unintended outcomes, and whether the program goals are appropriate and useful. Evaluators help to answer these questions.

Every year, FHFA receives and responds to numerous evaluations. The primary evaluator of FHFA is the FHFA Office of the Inspector General (OIG). However, FHFA is also subject to other agencies' scrutiny (i.e., The Government Accountability Office, U.S. Office of Government Ethics, Treasury, Federal Emergency Management Agency (FEMA) as well as other offices within FHFA (i.e., Office of General Counsel).

In FY 2014, FHFA responded to:

1. Nine OIG evaluations,
2. One evaluation from FEMA.

A summary of these evaluations follows along with FHFA's responses to each one.

1. Summary of OIG Evaluations

The mission of FHFA-OIG is to: promote the economy, efficiency, and effectiveness of FHFA programs; prevent and detect fraud, waste, and abuse in FHFA programs; and seek sanctions against, and civil and criminal prosecutions of, those responsible for such fraud, waste, and abuse. FHFA-OIG provides independent and objective reporting to FHFA's Director, Congress, and the American people through audits, evaluations, surveys, and investigations.

In FY 2014, FHFA-OIG issued eight evaluations (EVL) and one Evaluation Survey Report (ESR), which have been summarized below with FHFA's responses.[2] (EVL 004 and 007 are not presented because those numbers were used in other reports.) The FHFA-OIG also issues an annual assessment of FHFA's Management and Performance challenges. This is presented in the "Other Information" of this PAR, on pages 90–105.

2 *http://fhfaoig.gov*

ESR-2014-001: FHFA's Oversight of Derivative Counterparty Risk
The purpose of this evaluation was to assess the Enterprises' management of counterparty risk associated with their investments in derivatives.
OIG Findings
The Enterprises' implementation of Dodd-Frank's central clearing mandate mitigates their counterparty risk. OIG concludes that FHFA's oversight of the Enterprises' management of counterparty risk is such that no additional study of this topic is needed. However, OIG will continue to monitor the situation and initiate additional work on this topic if necessary. FHFA's oversight of the regulated entities' implementation of Dodd-Frank was not uniformly applied. In contrast to FHFA's oversight of the Federal Home Loan Banks (FHLBanks), FHFA did not issue an Advisory Bulletin to the Enterprises providing regulatory guidance regarding implementation of Dodd-Frank.
OIG Recommendation
OIG recommends that FHFA issue, to all impacted regulated entities, Advisory Bulletins that provide guidance regarding implementation of critical regulatory changes. OIG believes that this would further regulatory consistency in FHFA's oversight practices of its safety and soundness mission.
FHFA's Response
FHFA generally agrees with the FHFA-OIG recommendation that agency guidance on key regulatory changes should apply to all impacted regulated entities. It is FHFA's intent to be consistent across all regulated entities; however, there are times when it is appropriate (and legally necessary) to take into consideration differences in business activities, practices and risk profiles between the Enterprises and the 12 Federal Home Loan Banks. FHFA has processes in place to ensure that such differences are addressed so that guidance is consistent. The FHFA shall continue to operate under such a basis and provided documentation to the FHFA-OIG by May 31, 2014. Agreed-upon Corrective Action has been completed.

EVL-2014-002: Update on FHFA's efforts to strengthen its capacity to examine the Enterprises
The FHFA examination program is a primary means by which the agency supervises and regulates the housing Government-Sponsored Enterprises (GSEs). An effective examination program is essential for FHFA to ensure that the GSEs operate in a safe and sound manner. In a September 2011 evaluation report, the OIG concluded that the agency lacked a sufficient number of examiners and that many of its examiners had not been accredited through a professional commission program.
OIG Findings
OIG found that FHFA has taken some steps to enhance its examination capacity. However, FHFA has not yet developed a systematic process by which to ensure that the Enterprise core teams have the staffing necessary to execute their annual examination plans.
OIG Recommendations
OIG recommends that FHFA: (1) Review its implementation of the 2013 Enterprise examination plans and document the extent to which resource limitations, among other things, may have impeded their timely and thorough execution; (2) Develop a process that links annual Enterprise examination plans with core team resource requirements; and (3) Establish a strategy to ensure the necessary resources are in place to allow for timely and effective enterprise examination oversight.
FHFA's Response
FHFA agrees with these recommendations. OIG recommendation 1 will be completed by December 1, 2014; OIG recommendation 2 was completed on April 30, 2014; and OIG recommendation 3 will be completed by December 1, 2014.

EVL-2014-003: FHFA's Oversight of the Servicing Alignment Initiative (SAI)
As the Enterprises' conservator, FHFA established the Servicing Alignment Initiative (SAI) in April 2011 to address widespread deficiencies in servicer management of delinquent mortgages. SAI consists of a series of FHFA directives that set forth contractual requirements that the Enterprises must incorporate into their servicing guidelines. Servicers must comply with these guidelines when managing the accounts of financially distressed borrowers.
OIG Findings
FHFA did not develop and implement a process to determine whether servicers were complying with the numerous requirements contained in the SAI-related servicing guidelines.
OIG Recommendations
The OIG recommends that FHFA: (1) Establish an ongoing process to evaluate servicers' SAI compliance and the effectiveness of the Enterprises' remediation efforts; (2) Direct the Enterprises to routinely provide compliance reports and reviews for FHFA to assess; and (3) Regularly review SAI-related guidelines for enhancements or revisions.
FHFA's Response
FHFA will take corrective action to address the recommendations.

EVL-2014-005: FHFA's Reporting of Federal Home Loan Bank Directors' Expenses
OIG evaluated FHFA's reporting of expenses incurred by the members of the boards of directors of the FHLBanks. FHLBank boards can range in size from 13 to 18 directors with the majority of board members being directors or officers of member institutions. The objectives of the evaluation were to: (1) Determine whether FHFA included information about FHLBank director expenses in its annual reports to Congress, as required by the Federal Home Loan Bank Act; and (2) Illustrate the need for reliable data.
OIG Findings
(1) Since 2010, the FHLBanks have submitted director expense data of approximately $3 million each year to FHFA. However, FHFA has not included information about these expenses in its annual reports to Congress. (However, FHFA will do so in their 2013 *Report to Congress* and subsequent submissions). (2) Review of the director expense data submitted revealed inconsistencies that significantly diminished its usefulness.
OIG Recommendations
FHFA should address potential data limitations to ensure the reliability of the director expense information it receives: (1) Review expense data to identify and correct inconsistencies; (2) Issue guidance to ensure the consistency and usefulness of data submitted to FHFA.
FHFA's Response
FHFA agreed that it must report FHLBank director expenses in its Annual Report to Congress and agreed that FHLBanks should report their director expenses to FHFA on a consistent basis. FHFA committed to issue updated guidance by October 31, 2014, and did so.

EVL-2014-006: Recent Trends in Federal Home Loan Bank Advances to JPMorgan Chase and Other Large Banks
By December 2013, FHLBank advances had climbed to nearly $500 billion from $381 billion in March 2012, primarily due to advances to the four largest members of the System: JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo. The objective of this evaluation was to identify potential causes for the surge in advances to the four largest members, identify the benefits and risks, and assess FHFA's oversight of this trend.
OIG Findings
The upwell in advances to the four largest members is largely due to BASEL bank liquidity standards established in December 2010 which mandated that banks increase their holdings of high-quality liquid assets to improve their ability to withstand sudden financial stress. Members used the advances to purchase securities necessary to meet the new BASEL standards. The surges increase interest income for the FHLBanks, but also may increase concentration and collateral management risk. Therefore, the advances to large System members were a recent examination priority.
OIG Recommendation
FHFA could enhance awareness and understanding of FHLBank advances through its established reporting processes or the issuance of a special report.
FHFA Response
FHFA agrees with OIG's recommendation that it can increase transparency through its reporting. FHFA will augment its 2014 Report to Congress with a section dedicated to FHLBank advances, which will include trends and explanations for changes in advance activity.

EVL–2014–008: Status of the Development of the Common Securitization Platform (CSP)
Purpose of this evaluation was to: (1) Update the project's status; and (2) Identify certain challenges to development and implementation of the CSP.
OIG Findings
Progress has been made in developing the CSP; however, it still faces considerable development (lack of comprehensive timeline and cost estimate for the CSP) and implementation challenges (modification of the Enterprises' internal systems to communicate with the CSP).
OIG Recommendations
Establish schedules, timeframes and cost estimates for key stages of the CSP.
FHFA Response
FHFA agrees with the recommendations. There is an assessment underway of the scope of the project and options for reducing project risks. FHFA has been working with the Enterprises to develop timelines and cost estimates as the scope is refined.

EVL-2014-009: FHFA's Oversight of the Enterprises' Lender-Placed Insurance Costs (LPI)
LPI is imposed by the lender or servicer when a homeowner does not maintain property insurance coverage on their home. 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 have led some states to take action to reform LPI practices and reduce rates. The purpose of this evaluation was to assess the financial impact of LPI on the Enterprises and determine if FHFA, as conservator, has taken sufficient steps to conserve the Enterprise's assets in this regard.
OIG Findings
FHFA has taken some steps to prevent Fannie Mae and Freddie Mac servicers and LPI providers from causing further financial harm upon the Enterprises. An assessment regarding the merits of litigation by the Enterprises may also be useful.
OIG Recommendation
FHFA should assess the merits of litigation by the Enterprises against their servicers and LPI providers to remedy potential damages caused by past abuses in the LPI market.
FHFA Response
FHFA does not object to the recommendation and will complete an assessment of whether or not to institute legal action against servicers or LPI providers by June 2015. However the FHFA's assessment methodology would differ from the OIG approach. FHFA assessments routinely take into consideration analysis of the parties involved, litigation risks, economic assessments and consideration of relevant public policies.

EVL-2014-010: Recent Trends in the Enterprises' Purchases of Mortgages from Smaller Lenders and Nonbank Mortgage Companies
In recent years, the Enterprises have seen a shift in the composition of their mortgage sellers, with more sales from smaller lenders and nonbank mortgage companies. The evaluation documents the increase in sales to the Enterprises by smaller lenders and nonbank mortgage companies, discusses the reasons behind the trend, and assesses the FHFA oversight of Enterprises' risk management controls.
OIG Findings
This shift to smaller lenders and nonbank mortgage companies can reduce the Enterprises' highly concentrated financial exposure to their largest counterparties. However, there are risks: (1) The smaller entities have relatively limited financial capacity and the nonbank lenders are not subject to federal safety and soundness oversight; (2) They may lack sophisticated systems and the expertise necessary to manage high volumes of sales; and (3) An increased risk of reputational harm.
OIG Recommendation
Although the agency conducted examinations pertaining to general counterparty credit risk management and specialized nonbank servicers in 2013, examiners did not specifically test and validate the Enterprises' controls over the risks associated with direct mortgage sales from small lenders and nonbank mortgage companies.
FHFA Response
FHFA will be developing guidance to reinforce the risk management practices of the Enterprises. FHFA examination officials stated, and agency documents confirm, that since at least 2012 the agency has been aware of the risks associated with increasing sales to the Enterprises by smaller lenders and nonbank mortgage companies. In June 2013, FHFA completed an analysis of mortgage sellers that highlighted the growth of nonbank sellers, the changing nature of the Enterprises' counterparty risk, and the reputational risk associated with the nonbank lender.

EVL-2014-011: Freddie Mac Could Further Reduce Reimbursement Errors by Reviewing More Servicer Claims
In 2013, Freddie Mac paid servicers $1.4 billion to maintain borrower delinquent properties. The evaluation discusses the process by which Freddie Mac reimburses its servicers for delinquency expenses, examines the controls it put in place to minimize erroneous payments, and estimates the rate of improper payments.
OIG Findings
In order to reduce improper payments, Freddie Mac uses its Multi-layered Process and was able to identify and deny approximately $126 million in erroneous claims in 2013. Although generally effective, the OIG estimates that Freddie Mac still paid $70 million of improper payments to settle reimbursements that were not reviewed by their pre-payment system.
OIG Recommendations
OIG recommends that FHFA require Freddie Mac to: (1) Determine, by means of a cost-benefit analysis, whether to increase the size of the sample of reimbursement claims that are subject to pre-payment review; and (2) Increase the size of the sample of reimbursement claims that are subject to pre-payment review, if warranted by the results of the cost-benefit analysis.
FHFA Response
FHFA agrees with both recommendations. (1) By August 31, 2014, FHFA will direct Freddie Mac in writing to perform an economic cost-benefit analysis of its servicer reimbursement claims processes. (2) If the review warrants it, FHFA will direct Freddie Mac to undertake steps to allow for cost effective increases in sample size by February 27, 2015.

2. FEMA - Continuity of Operations (COOP) Evaluation

Per National Security Presidential Directive-51/ Homeland Security Presidential Directive-20 (NSPD-51/ HSPD-20), dated May 9, 2007, all Federal Executive Agencies are required to have a Continuity of Operations (COOP) Program. Per Federal Continuity Directive 1, COOP is evaluated on 14 Elements of Continuity. The first 13 are program areas, e.g., Essential Functions, Communications, and Records Management. The 14th point of evaluation is "Operational Phases and Implementation," i.e., how the COOP Plan is activated and implemented, usually during the annual test. Agency COOP Programs are internally evaluated during odd years and externally during even years.

FEMA SUMMARY
FHFA has earned a grade of "Green" on all 14 Elements of Continuity, as it has since 2010. Three of these evaluations were external evaluations conducted by FEMA/DHS personnel or their representative.
FHFA RESPONSE
FHFA recognizes the importance of planning for emergencies of all types and has adopted the "All Hazards" approach to contingency planning. Our perfect scores during the past five Continuity Program evaluations and responses to emergencies and drills at FHFA HQ illustrate the agency's commitment to the safety and security of its personnel. FHFA has a robust partnership with the U.S. and D.C. Departments of Homeland Security (DHS).

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports. The tables below provide information on final action taken by management on audit reports for FY 2014.

TABLE 1: Management Report on Final Action on Audits with Disallowed Costs for Fiscal Year 2014

Audit Reports		Number of Reports	Disallowed Costs
A.	Management decisions – Final action not taken at beginning of period	1	$ 256,343
B.	Management decisions made during the period	0	$ 0
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	1	$ 21,329
	(b) Other*	0	$ 235,014
	2. Write-offs	0	$ 0
	3. Total of 1(a), 1(b), & 2	0	$ 256,343
E.	Audit reports needing final action at the end of the period	0	$ 0

** The contracting Officer (CO) reviewed the disallowed costs and determined that they were reasonable. The CO took action to remediate the identified issues with the contract file.*

TABLE 2: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for Fiscal Year 2014

Audit Reports		Number of Reports	Funds Put to Better Use
A.	Management decisions – Final action not taken at beginning of period	1	$ 105,000
B.	Management decisions made during the period	1	$ 5,015,505
C.	Total reports pending Final action during the period (A and B)	2	$ 5,120,505
D.	Final action taken during the period:		
	1. Value of recommendations implemented (completed)	1	$ 105,000
	2. Value of recommendations that management concluded should not or could not be implemented or completed	1	$ 5,015,505
	3. Total of 1 & 2	2	$ 5,120,505
E.	Audit reports needing final action at the end of the period	0	$ 0

TABLE 3: Audit Reports without Final Actions But with Management Decisions over One Year Old for Fiscal Year 2014

Management Action in Process

Report No. and Issue Date	Recommendation	Management Action
—	—	—

FHFA Statement of Assurance

Federal Housing Finance Agency
Office of the Director

October 15, 2014

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2014

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, 2014 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, using a risk based approach adapted from 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, 2014 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, 2014.

Sincerely,

Melvin L. Watt

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

Performance Section

- Strategic Goal 1: Safe and Sound Housing GSEs
- Strategic Goal 2: Stability, Liquidity, and Access in Housing Finance
- Strategic Goal 3: Preserve and Conserve Enterprise Assets
- Strategic Goal 4: Prepare for the Future of Housing Finance in the U.S.

The Performance Section is organized by strategic goal and describes FHFA's efforts to meet the goals defined in the agency's Strategic Plan for Fiscal Years 2013–2017. The FY 2013–2017 Plan outlines four strategic goals, supported by nine performance goals, and 26 performance measures. Figure 18 shows the hierarchy of those goals and measures.

FIGURE 18: FHFA's Goal Hierarchy

The Performance Section also includes a brief discussion of each strategic goal and performance goal; their associated targets; the results of the agency's performance for the current year, as well as up to three prior fiscal years (as available); factors describing why certain performance measures were not met, and FHFA's plan to improve performance, where appropriate.

Performance Planning and Reviews

The Annual Performance Plan sets out performance measures and targets in support of the goals and objectives in the Strategic Plan. These targets and measures are used to track achievement of strategic and performance goals. For FY 2014, 19 new measures were introduced. The Annual Performance Plan also highlights the means and strategies the agency will use to attain each strategic and performance goal.

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

During FY 2014, senior executives submitted quarterly reports on the progress that had been 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 throughout the year to monitor progress toward achieving planned performance levels. Figure 19 outlines FHFA's performance management cycle.

Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2014 Performance and Accountability Report is complete and reliable, the sources of data are identified and verified. Each office maintains checks-and-balance systems that reflect whether their performance measures are more subject to external influences (factors not under FHFA's control) or internal influences (factors under FHFA's control). The data is tracked internally, reported in the agency's performance tracking system, and reviewed and approved quarterly by senior executives as appropriate. Additionally, FHFA staff documents the procedures used to obtain and validate the data to ensure the accuracy and accountability of the information.

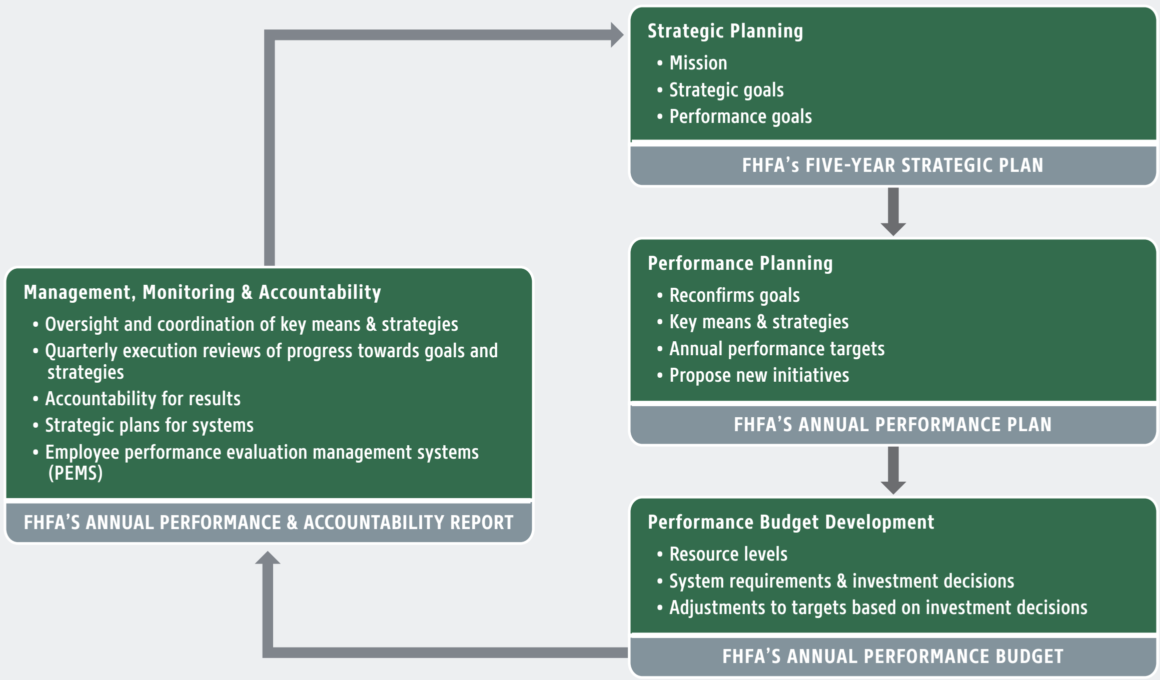
During the performance planning cycle, the following data is collected on each performance measure:

- Definition of the performance measure,
- Data source,
- Process for calculating or tabulating performance data,
- Process for validation and verification,
- Responsible manager, and
- Location of documentation.

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

Performance Section

FIGURE 19: FHFA's Performance Management Cycle



Strategic Goal 1: Safe and Sound Housing GSEs

PERFORMANCE GOAL 1.1: Identify risks and require timely remediation of weaknesses					
Strategic Goal 1: Safe and Sound Housing GSEs	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014 Target**	**FY14 Results**
1.1.1: Develop supervisory strategies and examination plans for 2014 that cover key risks for the Enterprises, FHLBanks and the Office of Finance	N/A	N/A	Not Met	**Enterprises:** 12/15/2013 **FHLBanks:** 100 percent	Met
1.1.2: Communicate supervisory results, findings and expectations for remedial actions to the Enterprises, FHLBanks and the Office of Finance within established timeframes	N/A	N/A	N/A	**Enterprises:** 3/31/2014 for all 2013 targeted examination reports and annual Reports of Examination **FHLBanks:** 90 percent of the time	Met
1.1.3: Issue standards and criteria to the regulated entities for risk management in the areas of operational and liquidity risk	N/A	N/A	N/A	3/31/2014	Met

Performance Results

1.1.1: FHFA developed a supervisory plan for each of the regulated entities based on prior supervisory work and assessment of emerging risks and new activities at the entities. FHFA staff developed a supervisory strategy for each FHLBank and the Office of Finance by the established deadline. Supervisory strategies for the Enterprises were distributed to staff on December 10, 2013 and, as a result, were also developed by the established deadline. The Enterprise Supervisory Plans included plans for targeted examinations and ongoing monitoring activities focusing on areas such as corporate governance, credit risk management (including loss mitigation and the reduction of legacy mortgage portfolios), information systems and security, third-party relationships (particularly specialty servicers), and management of the retained mortgage portfolios.

1.1.2: FHFA communicated supervisory results, findings and expectations for remedial action to the Enterprises, the FHLBanks and the Office of Finance. Examiners-in-charge for each Enterprise delivered and presented Reports of Examination, including CAMELSO ratings, to the respective Boards of Directors in March 2014. Reports of Examination were communicated to Freddie Mac on March 18, 2014, and to Fannie Mae on March 24, 2014. FHFA met established targets for the FHLBanks and the Office of Finance by conducting all exit meetings within 14 days of onsite presence and delivering most Reports of Examination within 90 days of the exit meeting.

1.1.3: FHFA continued to provide greater transparency and clarity to its examination program by developing and issuing new guidance to examiners and the regulated entities. FHFA met its target by delivering the Advisory Bulletin AB-2014-01 on Liquidity Risk Management and Advisory Bulletin AB-2014-02 on Operational Risk Management in February 2014. The Liquidity Risk Management Advisory Bulletin addresses principles the Enterprises should follow to identify, measure, monitor, and control liquidity risk while the Operational Risk Management Advisory Bulletin addresses basic components needed to effectively manage an operational risk management program and governance aspects related to operational risk.

FHFA also issued Advisory Bulletin AB-2014-05 on Cyber Risk Management in May 2014, and Advisory Bulletin AB-2014-06 on Mortgage Servicing Transfers in June 2014, which provides guidance and expectations on managing cyber risk and risk associated with the sale and transfer of mortgage servicing rights.

Performance Section

PERFORMANCE GOAL 1.2: Improve the condition of the Regulated Entities					
Strategic Goal 1: Safe and Sound Housing GSEs	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014 Target**	**FY14 Results**
1.2.1: FHFA performs risk-based examination work at the Enterprises, FHLBanks and the Office of Finance and identifies areas of weakness and supervisory concern *(This indicator has been identified as a Key Performance Indicator)*	N/A	N/A	N/A	Enterprises: Onsite work completed by 3/31/2014 FHLBanks: 100 percent of the time	Met
1.2.2: In response to examination findings, evaluate the effectiveness of remedial actions taken by the Enterprises and the FHLBanks	Met	Met	Not Met	Enterprises: Issue supervisory response to submission of remedial plan within 60 days. FHLBanks: 90 percent of the time	Partially Met
1.2.3: Finalize Examination Manual for examination of all regulated entities, covering major areas of risk management (credit, market, operational, and model risk)	N/A	N/A	N/A	12/31/2013	Met
1.2.4: Each FHLBank's Market Value of Equity (MVE) to par ratio	N/A	N/A	N/A	> or = 1 as of 9/30/2014 with no declines by more than 15 percent in a quarter	Met

Performance Results

1.2.1: FHFA tracks quarterly progress against the annual 2014 examination plans. The annual examination plan reflects the priorities described in the supervisory strategies. Examination activities for the Enterprises are detailed in the examination plans that both the Freddie Mac and Fannie Mae examination teams prepared and approved at the beginning of the calendar year, and revised during the year. On-site work at the Enterprises was completed by March 31, 2014. FHFA developed pre-examination and scope memoranda for the FHLBanks and the Office of Finance prior to the commencement of each entity's examination and, therefore, met the performance target.

1.2.2: Performance measure 1.2.2 tracks remediation activity completed by the regulated entities. Matters Requiring Attention (MRA) identify significant supervisory concerns that require the regulated entities to take corrective action. The target for the Enterprise examination teams is to issue a letter either objecting or not objecting to the plan within 60 days of receipt of a remedial plan addressing the MRA from the Enterprise. FHFA met this target for all quarters except one. One non-objection letter was issued 88 days following receipt of the remediation plan as a result of the transfer of assignments due to staff turnover. FHFA examination staff worked with the Boards of Directors and management at both Enterprises to remediate MRAs and high priority audit matters.

The FHLBanks and the Office of Finance remediated 94 percent of their MRAs, exceeding the goal of 90 percent. During FY2014, the FHLBanks reviewed 82 MRAs and 77 were remediated or were being remediated in accordance with a plan. The five unresolved MRAs were from three FHLBanks and FHFA is working with each of them to remediate these MRAs during the next examination cycle. In some instances, examination staff issued new MRAs in the same risk area because of new or increased risks.

1.2.3: The FHFA Examination Manual for the regulated entities was finalized and issued on December 19, 2013. The Examination Manual is comprised of an overview of the examination process and 25 modules organized by risk category, business line or activity. The Examination Manual covers all areas of risk management, including credit, market, operational, and model risk. It also provides examination instruction and guidance, serves as a reference tool, and describes standards and expectations.

In addition to the FHFA Examination Manual, FHFA issued three supplemental guidance modules in FY 2014, bringing the total number of supplemental guidance modules available for field-testing to 17. These modules complement the FHFA Examination Manual by focusing on specific business lines, products, or specific topics.

1.2.4: As discussed in the Performance Highlights for Strategic Goal 1, the MVE to par ratio provides an indicator of each FHLBank's condition. An MVE to par ratio of 1.0 or above is desirable as it reflects an FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. Throughout FY2014, all of the FHLBanks maintained an MVE to par ratio above one. In addition, no FHLBank experienced a decline in the ratio by more than 15 percent during any quarter of the reporting period.

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

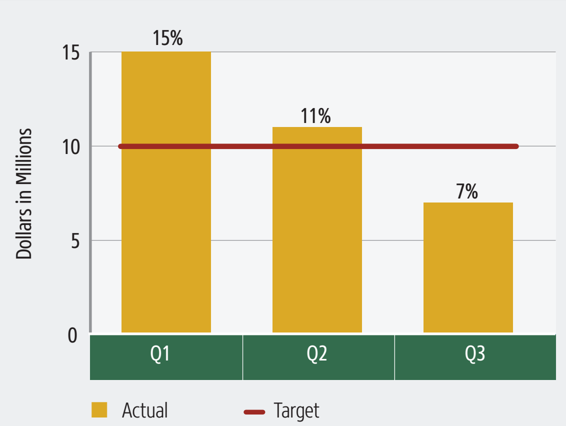
PERFORMANCE GOAL 2.1: Promote stability and mitigate systemic risk that could lead to market instability

Strategic Goal 2: Stability, Liquidity, and Access in Housing Finance	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY14 Results
2.1.1: Maintain the rate of HARP refinances	N/A	Met	Met	On a quarterly basis, 10 percent of HARP eligible borrowers with a refinance incentive will refinance	Partially Met
2.1.2: Reduce the volume of Seriously Delinquent Loans which includes all loans in the process of foreclosure plus loans that are three or more payments delinquent	N/A	N/A	N/A	15 percent decline over the fiscal year relative to the Sept. 2013 volume	Met
2.1.3: Distressed borrowers receive sustainable loan modifications *(This indicator has been identified as a Key Performance Indicator)*	N/A	N/A	N/A	70 percent of permanent modifications are current and performing 6 months after modification	Met
2.1.4: Reduce the volume of REO properties	N/A	N/A	Not Met	14 percent decline over the fiscal year relative to the Sept. 2013 volume	Met

Performance Results

2.1.1: For each quarter, FHFA's target was to have at least 10 percent of HARP eligible borrowers to complete a refinance on a quarterly basis. This target was not met in all quarters. The number of borrowers refinancing through HARP averaged 11 percent of HARP-eligible borrowers during the first three quarters of FY 2014, but fell short of the 10 percent target in the third quarter. The results for each quarter are illustrated below in Figure 20.

FIGURE 20: Percentage of HARP eligible borrowers who refinanced, FY 2014



Mortgage rates significantly influence the number of HARP eligible borrowers who have an incentive to refinance. Since June 2013, mortgage rates have remained nearly one percent greater than the historic lows observed in 2012, reducing the refinance incentive for many borrowers including HARP eligible borrowers. Refinance volume has fallen materially as a result.

The number of borrowers refinancing through HARP represented 20 percent of all the borrowers refinancing through Fannie Mae and Freddie Mac during the first three quarters of FY 2014. From inception of the HARP program in April 2009, through the end of the third quarter of FY 2014, this measure averaged 16 percent.

2.1.2: The volume of the Enterprises' seriously delinquent loans declined 24 percent during the first 11 months of the fiscal year (to approximately 553,000 as of August 31, 2014 from nearly 724,000 as of September 30, 2013). This exceeds the target of 15 percent.

The decrease was the result of home retention solutions, foreclosure alternatives, and completed foreclosures, as well as the Enterprises' acquisition of loans with stronger credit profiles. Overall improvement in the economic and housing market conditions also contributed to the continuing decline in the volume of seriously delinquent loans.

2.1.3: As of August 31, 2014, approximately 78 percent of loans modified in the fourth quarter of 2013 were current and performing six months after modification. This is higher than the target of 70 percent of permanent loan modifications six months after modification. The strong performance of the modified loans was impacted by improved economic and housing market conditions and the fact that borrowers who received loan modifications successfully completed trial modification periods prior to permanent modification, and that more of them received substantially reduced mortgage payments as a result compared with earlier modifications.

2.1.4: The number of the Enterprises' REO properties declined 17 percent during the first 11 months of the fiscal year to approximately 123,000 as of August 31, 2014, from 148,000 as of September 30, 2013. This performance exceeded the target reduction of 14 percent.

The decline in the number of REO properties was primarily due to higher REO dispositions and lower REO acquisitions. This was driven by lower delinquencies and buyer interest in REOs due to continuing improvement in economic and housing market conditions.

PERFORMANCE GOAL 2.2: Ensure liquidity in mortgage markets

Strategic Goal 2: Stability, Liquidity, and Access in Housing Finance	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY14 Results
2.2.1: Increase the average single-family guarantee fees charged by the Enterprises	N/A	N/A	Met	FY 9/30/14 compared to FY 9/30/13	Not Met
2.2.2: Complete beta testing for launching the National Mortgage Database	N/A	N/A	N/A	3rd quarter FY 2014	Not Met

Performance Results

2.2.1: On December 9, 2013, FHFA announced proposed increases to guarantee fees that the Enterprises charge lenders to provide a credit guarantee to ensure the timely payment of principal and interest to investors in Mortgage-Backed Securities (MBS) they issue if the borrower fails to pay. The MBS, in turn, are backed by mortgages that lenders sell to the Enterprises. The proposed changes included an across-the-board 10 basis point increase, an adjustment of up-front fees charged to borrowers in different risk categories and elimination of the 25 basis point adverse market charge for all but four states.

On January 8, 2014, FHFA suspended implementation of these changes pending further review. FHFA is currently evaluating the Enterprises' guarantee fees following the publication of a Request for Input on June 5, 2014. The deadline for stakeholders and the public to submit feedback to this Request for Input ended on September 8, 2014.

2.2.2: FHFA is overseeing the National Mortgage Database (NMDB) Project, which will require several years to complete. The NMDB will provide comprehensive information about the U.S. mortgage market based upon a five percent sample of residential mortgages. Without the NMDB, such comprehensive data does not exist and regulators lack such a tool to help ensure that the residential mortgage market is safe, sound, and stable.

On April 16, 2014, FHFA published a System of Records Notice (SORN) in the Federal Register about the NMDB. Following the publication of the SORN, FHFA received a number of comments about the NMDB and the information the SORN indicated could come into FHFA's possession in connection with the development of the NMDB. FHFA is continuing to consider input received in response to the SORN and is continuing to conduct an intensive review of the NMDB, including its intended scope and operational controls and whether all the information listed in the SORN will be necessary and consistent with the scope of the project.

PERFORMANCE GOAL 2.3: Expand access to housing finance for diverse financial institutions and qualified borrowers

Strategic Goal 2: Stability, Liquidity, and Access in Housing Finance	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY14 Results
2.3.1: Increase access to the secondary market for rural and community based lenders *(This indicator has been identified as a Key Performance Indicator)*	N/A	N/A	N/A	Increase from prior year	Baseline Year

Performance Results

2.3.1: Fannie Mae and Freddie Mac approved and/or reactivated relations with 52 and 57 rural or community lenders respectively during FY 2014. Combined, they have 109 activations this year. FHFA also provided oversight for the FHLBanks' Affordable Housing Program and Community Investment Program, which created conditions enabling more private mortgage participants to take part in the affordable housing market. A "Result" is not shown here because FY 2014 was a baseline year and prior year data is not available.

Strategic Goal 3: Preserve and Conserve Enterprise Assets

PERFORMANCE GOAL 3.1: Minimize taxpayer losses during the Enterprise conservatorships

Strategic Goal 3: Preserve and Conserve Enterprise Assets	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY14 Results
3.1.1: Maintain executive management and board oversight by ensuring replacement of Executive Vice Presidents and above and board members	N/A	N/A	N/A	No more than one vacancy unfilled after 120 days	Met
3.1.2: 2014 Conservatorship Scorecard provided to the Enterprises	N/A	N/A	N/A	1Q FY 2014	Not Met
3.1.3: Draft of 2015 Conservatorship Scorecard provided to Enterprise management for planning and budgeting purposes	N/A	N/A	N/A	4Q FY 2014	Not Met

Performance Section

Performance Results

3.1.1: FHFA worked with the Enterprises to maintain a full complement of senior Enterprise officers (Executive Vice Presidents and above) and board members.

3.1.2: Beginning in January 2014, the agency undertook an assessment of the agency's priorities as conservator for FY 2014. The completion of the assessment resulted in providing the 2014 Conservatorship Scorecard to the Enterprises later than initially planned. The 2014 Conservatorship Strategic Plan and the 2014 Conservatorship Scorecard were issued in May 2014.

3.1.3: While FHFA made progress toward drafting the 2015 Conservatorship Scorecard by the fourth quarter of FY 2014, it did not meet the objective of providing a draft to the Enterprises for planning and budget purposes by September 30, 2014. FHFA provided the Enterprises a draft 2015 Scorecard in the fourth quarter of calendar year 2014.

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

PERFORMANCE GOAL 4.1: Build a new infrastructure for the secondary mortgage market					
Strategic Goal 4: Prepare for the future of housing finance in the US	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014 Target**	**FY14 Results**
4.1.1: Completion of the build and internal testing of the common securitization platform (CSP)	N/A	N/A	N/A	Q4 FY 2014	Partially Met
4.1.2: Establishment of an Enterprise joint venture to develop and operate the CSP	N/A	N/A	N/A	1Q FY 2014 - CEO Hired	Not Met
4.1.3: Inform the public through dissemination of FHFA publications on housing and housing finance markets	Met	Met	Met	Produce eight research publications during FY 2014	Partially Met

Performance Results

4.1.1: To further the objective of creating a shared securitization infrastructure, FHFA continued its direction to the Enterprises to develop a Common Securitization Platform (CSP). Progress has been made toward completing the build and internal testing of the core components of the CSP. In 2014, the CSP scope was refined and, as a result, the development activities will focus on those needed to execute most of the current securitization functions of the Enterprises and to enable the successful execution of the Single Security initiative.

4.1.2: An Enterprise Joint Venture, Common Securitization Solutions, LLC (CSS), to develop and operate the CSP was successfully established in FY 2014, and an effort was undertaken to hire an independent CEO. Following the 2014 Conservatorship Scorecard decision to focus the CSP development to support most of the current securitization functions of the Enterprises and on the development of a Single Security, the effort to hire a CSS CEO was refocused and delegated to the Enterprises. While the target of completing the hire in the first quarter of FY 2014 was not met, the Enterprises announced a CEO in November 2014.

4.1.3: During FY 2014, FHFA produced seven research publications that are posted on the FHFA website for public viewing. The seven publications and their links are listed below.

FHFA FY 2014 Research Publications

- FHFA Working Paper 14-3: The Relationship between Second Liens, First Mortgage Outcomes, and Borrower Credit: 1996-2010
- FHFA Brief 14-2: First-Time Homebuyer Share and House Price Growth
- Working Paper 14-2: The Effects of Monetary Policy on Mortgage Rates
- Working Paper 14-1: Countercyclical Capital Regime Revisited: Test of Robustness
- FHFA Brief 14-1: Employment, Income, and House Prices
- The Size of the Affordable Mortgage Market
- FHFA Mortgage Analytics Platform

PERFORMANCE GOAL 4.2: Establish standards that promote a safer and more efficient housing finance system					
Strategic Goal 4: Prepare for the future of housing finance in the US	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014 Target**	**FY14 Results**
4.2.1: Develop plans to standardize origination and servicing data, leveraging the MISMO process. Establish timelines to implement data collection	N/A	N/A	N/A	4Q FY 2014	Partially Met
4.2.2: Enterprises publish new eligibility standards for mortgage insurers	N/A	N/A	N/A	1Q FY 2014	Not Met
4.2.3: Produce model contractual agreements for credit risk transfer transactions	N/A	N/A	N/A	1Q FY 2014	Met

Performance Results

4.2.1: 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 investors have the information needed to efficiently measure and price mortgage credit risk. FHFA partially met Performance Measure 4.2.1 by directing the Enterprises to work together to develop a uniform servicing dataset and plans to standardize origination data.

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 resulting feedback facilitated broader conversations around servicer data and technology that are on-going during 2014.

Additionally, in support of further standardizing the origination data, the Enterprises achieved the following milestones:

- On December 20, 2013, the Enterprises delivered plans that included activities and timelines to support the announcement and collection of closing disclosure data,
- On December 31, 2013, the Enterprises submitted plans, including timelines, for creation and publication of the Uniform Residential Loan Application form,
- On March 11, 2014, the Enterprises published the Uniform Closing Dataset MISMO-mapping document, a critical component to implementing the Consumer Financial Protection Bureau's (CFPB) Closing Disclosure.

4.2.2: Draft standards were prepared in 2013 and were reviewed by FHFA beginning January 2014. In July 2014, FHFA issued a Request for Input on requirements that would apply to private mortgage insurance companies that insure mortgage loans owned or guaranteed by the Enterprises. These requirements would apply only to private mortgage insurers that are currently approved to do business with the Enterprises and those seeking approval in the future. The draft Private Mortgage Insurer Eligibility Requirements reflects a multi-year effort to produce a clear and comprehensive set of standards. The updated financial requirements incorporate a new, risk-based framework that ensures that approved insurers have a sufficient level of liquid assets from which to pay claims. The draft requirements also include enhanced operational performance expectations and define remedial actions that would apply if an approved insurer fails to comply with the revised requirements. FHFA and the Enterprises have consulted with state insurance commissioners and private mortgage insurers that are currently approved to do business with

Fannie Mae or Freddie Mac regarding these draft requirements.

4.2.3: FHFA met Performance Measure 4.2.3 by directing the Enterprises to work together to produce agreements for credit risk transfer transactions by the end of December 2013. The contractual agreements were produced for all the credit risk transfer transactions that occurred.

PERFORMANCE GOAL 4.3: Contract Enterprise operations

Strategic Goal 4: Prepare for the future of housing finance in the US	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY14 Results
4.3.1: Reduction in retained portfolio consistent with the Preferred Stock Purchase Agreement	N/A	N/A	Met	15 percent annually	Met
4.3.2: Reduction in retained portfolio (exclusive of agency securities) through sales	N/A	N/A	N/A	5 percent annually	Met
4.3.3: Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions *(This indicator has been identified as a Key Performance Indicator)*	N/A	N/A	N/A	1Q FY 2014	Met

Performance Results

4.3.1: The Enterprises are required to contract their retained portfolios as set forth in the agreement with the U.S. Department of the Treasury. The Enterprises met the Preferred Stock Purchase Agreement (PSPA) requirements of reducing the unpaid principal balance (UPB) of their retained portfolio of mortgage assets by 15 percent during calendar year 2013, and are on track to meet the calendar year 2014 requirements of a further 15 percent reduction.

4.3.2: Pursuant to the 2013 Conservatorship Scorecard, the Enterprises were required to reduce their retained portfolio balance (exclusive of agency securities) by selling five percent of less-liquid assets. Both Enterprises met this target by December 2013.

4.3.3: In FY 2014, FHFA oversaw the Enterprises' implementation of two or more different types of single-family mortgage credit risk-sharing transactions. Both Enterprises met this target.

Performance Section

Financial Section

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

Message from the Chief Financial Officer

Mark Kinsey

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2014 financial statements from the U.S. Government Accountability Office (GAO). In its financial statements audit report, GAO concluded that 1) FHFA's FY 2014 financial statements are fairly presented in all material respects; 2) FHFA had effective internal control over financial reporting; and 3) there were no reportable instances of noncompliance with the laws, regulations, and contracts it tested. Also, no material weaknesses or significant deficiencies were identified. FHFA has received an unmodified audit opinion for every year since its inception as a new agency in July 2008.

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 using a risk based approach adapted from OMB Circular A-123, "Management's Responsibility for Internal Control" provided 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, 2014 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 2013 PAR from the Association of Government Accountants, the sixth straight year 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. Accountability is one of the key linchpins for effective internal controls.

This will be the last year reporting under FHFA's Strategic Plan for the years 2013-2017. In May 2014, FHFA published the 2014 Conservatorship Strategic Plan, updating the strategic plan for the conservatorships that was released to the public in February 2012. In August 2014, FHFA released for public comment an agency strategic plan for the years 2015-2019, incorporating all of the key elements in the new 2014 Conservatorship Strategic Plan. FHFA's strategic plan for Fiscal Years 2015-2019 is expected to be finalized and released later this year.

Sincerely,

Mark Kinsey
Chief Financial Officer
November 17, 2014

Financial Section

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

Independent Auditor's Report

To the Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2014 and 2013 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, 2014; and
- no reportable noncompliance for fiscal year 2014 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

As required by the Housing and Economic Recovery Act of 2008 (HERA),[3] we have audited FHFA's financial statements. FHFA's financial statements comprise the balance sheets as of September 30, 2014, and 2013; 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, 2014, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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

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

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

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

Management's Responsibility

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2014, based on its evaluation, included in the accompanying Management's Report on Internal Control Over Financial Reporting in appendix I.

Auditor's Responsibility

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

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists,[4] 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

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

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.

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, 2014, and 2013, 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 2014 and 2013 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA.[5] FHFA's goal in placing the two entities into conservatorship was to stabilize them with the objective of maintaining normal business operations and restoring safety and soundness. The Department of the Treasury (Treasury) has provided Fannie Mae and Freddie Mac about $188 billion in direct financial support. Shortly after Fannie Mae and Freddie Mac were placed in conservatorship, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of these entities would not be included in the consolidated financial statements of the federal government or those of Treasury, although Treasury records in its financial statements an asset for its investment in Fannie Mae and Freddie Mac. In making this determination, OMB and Treasury concluded that

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

because the entities were not listed in the “Federal Programs by Agency and Account” section of the federal government’s budget, and because the nature of the conservatorships and the federal government’s ownership and control were considered to be temporary, the entities did not meet the conclusive or indicative criteria for inclusion in the consolidated federal government’s or Treasury’s financial statements.[6] OMB reaffirmed this conclusion with respect to fiscal years 2009 through 2014. 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 2014 and 2013 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, 2014, based on criteria established under FMFIA.

During our 2014 audit, we identified deficiencies in FHFA’s internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[7] Nonetheless, these deficiencies warrant FHFA management’s attention. We have communicated these matters to management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

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

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[6]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*.

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

Other Information

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

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

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to FHFA that have a direct effect on the determination of material amounts and disclosures in 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 2014 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHFA. Accordingly, we do not express such an opinion.

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

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

Agency Comments

We provided a draft of this report to FHFA for comment. In its written comments, reprinted in appendix II, FHFA accepted the audit conclusions and stated that it will 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.

J. Lawrence Malenich

J. Lawrence Malenich
Director
Financial Management and Assurance

November 10, 2014

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 effectuated by those charged with the Agency's governance and management and by 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, 2014, 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, 2014, FHFA's internal control over financial reporting was effective.

Melvin L. Watt
Director

Mark Kinsey
Chief Financial Officer

November 10, 2014

Appendix II: FHFA Response to Auditor's Report

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

November 10, 2014

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 2014 and 2013 Financial Statements (GAO-15-147R). This report presents GAO's opinion on the fiscal years 2014 and 2013 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, 2014, 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 2014 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal controls over financial reporting; and that there were no reportable instances of noncompliance with laws and regulations tested by GAO.

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

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

Sincerely,

Melvin L. Watt

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Balance Sheets

As of September 30, 2014 and 2013
(In Thousands)

	2014	2013
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 12,161	$ 15,914
Investments - Note 3	63,951	71,907
Accounts Receivable - Note 4	17	–
Prepaid Expenses	169	–
Total Intragovernmental	76,298	87,821
Accounts Receivable, Net - Note 4	83	14
Property, Equipment, and Software, Net - Note 5	30,994	39,426
Prepaid Expenses	940	851
Total Assets	**$ 108,315**	**$ 128,112**
Liabilities:		
Intragovernmental		
Accounts Payable	$ 2,638	$ 1,637
Other Intragovernmental Liabilities - Note 7	1,966	1,406
Total Intragovernmental	4,604	3,043
Accounts Payable	7,571	9,546
Unfunded Leave	11,291	11,175
Deferred Lease Liabilities	25,814	24,805
Other Liabilities - Note 7	7,112	3,026
Total Liabilities	56,392	51,595
Net Position:		
Cumulative Results of Operations	51,923	76,517
Total Net Position	$ 51,923	$ 76,517
Total Liabilities and Net Position	**$ 108,315**	**$ 128,112**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statements of Net Cost

For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Program Costs by Strategic Goal—Note 10:		
Safety and Soundness:		
Gross Costs	$ 145,068	$ 153,119
Less: Earned Revenue	(114,996)	(193,766)
Net Safety and Soundness (Income from)/Cost of Operations	**$ 30,072**	**$ (40,647)**
Stability, Liquidity, and Access:		
Gross Costs	$ 54,786	$ 40,855
Less: Earned Revenue	(51,595)	(9,668)
Net Stability, Liquidity, and Access (Income from)/Cost of Operations	**$ 3,191**	**$ 31,187**
Conservatorship:		
Gross Costs	$ 51,235	$ 45,128
Less: Earned Revenue	(46,260)	(13,934)
Net Conservatorship (Income from)/Cost of Operations	**$ 4,975**	**$ 31,194**
Prepare for the Future:		
Gross Costs	$ 20,367	$ 10,869
Less: Earned Revenue	(26,407)	(12,022)
Net Prepare for the Future (Income from)/Cost of Operations	**$ (6,040)**	**$ (1,153)**
Total Gross Program Costs	$ 271,456	$ 249,971
Less: Total Earned Revenue	(239,258)	(229,390)
Net (Income from)/Cost of Operations	**$ 32,198**	**$ 20,581**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Cumulative Results of Operations:		
Beginning Balance	$ 76,517	$ 90,673
Imputed Financing Sources	7,604	6,425
Total Financing Sources	7,604	6,425
Net Cost of Operations	(32,198)	(20,581)
Net Change	(24,594)	(14,156)
Cumulative Results of Operations	**$ 51,923**	**$ 76,517**
Net Position	**$ 51,923**	**$ 76,517**

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, 2014 and 2013
(In Thousands)

	2014	2013
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 39,439	$ 45,535
Recoveries of Prior Year Unpaid Obligations	10,205	11,535
Unobligated Balance From Prior Year Budget Authority, Net	49,644	57,070
Appropriations	234,907	225,445
Spending Authority From Offsetting Collections	46,340	41,608
Total Budgetary Resources	**$ 330,891**	**$ 324,123**
Status of Budgetary Resources:		
Obligations Incurred	$ 299,984	$ 284,684
Unobligated Balance, End of Year:		
Exempt from Apportionment	30,907	39,439
Total Unobligated Balance, End of Year	30,907	39,439
Total Budgetary Resources	**$ 330,891**	**$ 324,123**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 48,383	$ 52,883
Obligations Incurred	299,984	284,684
Outlays (Gross)	(292,935)	(277,649)
Recoveries of Prior Year Unpaid Obligations	(10,205)	(11,535)
Unpaid Obligations, End of Year (Gross)	45,227	48,383
Uncollected Payments:		
Change in Uncollected Payments, Federal Sources	(22)	–
Uncollected Payments, Federal Sources, End of Year	(22)	–
Obligated Balance, Start of Year, Net	**$ $48,383**	**$ $52,883**
Obligated Balance, End of Year, Net	**$ $45,205**	**$ $48,383**
Budget Authority and Outlays, Net:		
Budget Authority (Gross)	$ $281,247	$ $267,053
Actual Offsetting Collections	(46,318)	(41,608)
Change in Uncollected Customer Payments From Federal Sources	(22)	–
Budget Authority, Net	**$ 234,907**	**$ 225,445**
Outlays (Gross)	$ 292,935	$ 277,649
Actual Offsetting Collections	(46,318)	(41,608)
Outlays, Net	246,617	236,041
Distributed Offsetting Receipts	(234,907)	(225,445)
Agency Outlays, Net	**$ 11,710**	**$ 10,596**

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

Notes to the Financial Statements

For the Years Ended September 30, 2014 and 2013

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 twelve 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 fiscal year 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.

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	–	–
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 U.S. generally accepted accounting principles and follow the presentation guidance established by OMB Circular No. A-136 "Financial Reporting Requirements," as revised. The statements are a requirement of the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002, and HERA. These financial statements are in addition to the financial reports prepared by FHFA, pursuant to OMB directives, which are used to monitor and control budgetary resources. The financial statements include the activities and transactions of the FHFA-OIG. The amounts reported in the financial statements are consolidated totals net of intra-entity transactions, except for the Statement of Budgetary Resources (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.

C. Basis of Accounting

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

D. Revenues, Imputed & Other Financing Sources

Operating revenues of FHFA are obtained through assessments of the Regulated Entities. The head of the agency approved the annual budget for fiscal years 2014 and 2013 in August 2013 and 2012, respectively. By law, FHFA is required to charge semi-annual assessments to the entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the entities, plus amounts determined by the head of the agency to be necessary for maintaining a working capital fund.

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

FHFA calculates the assessments for each Enterprise by determining the proportion of each Enterprise's assets and off-balance sheet obligations to the total for both Enterprises and then applying each of the Enterprise's proportion (expressed as a percentage) to the total budgeted costs for regulating the Enterprises. FHFA calculates the assessments for each of the 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. 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 fiscal years 2014 and 2013 as prescribed by accounting standards. FHFA recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees accrued on FHFA's behalf by the Office of Personnel Management (OPM).

E. Use of Estimates

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

F. Fund Balance with Treasury

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

During the year, increases to FHFA's Fund Balance with Treasury are comprised of semi-annual assessments, investment interest, collections on reimbursable agreements, 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 fiscal years 2014 and 2013, 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 120 days delinquent. Based on historical experience, all receivables are considered collectible and no allowance is provided.

I. Property, Equipment, and Software, Net

Property, Equipment and Software is recorded at historical cost. It consists of tangible assets and software. Based on a review of capitalization policy thresholds of 24 other agencies, FHFA implemented new capitalization thresholds beginning on May 13, 2014. The new capitalization thresholds are being applied prospectively. The following are the capitalization thresholds as of May 13, 2014:

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

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Prior to May 13, 2014, the capitalization thresholds were as follows:

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

FHFA removed the bulk purchases threshold. Instead, FHFA will record unit purchases when items acquired are above the capitalization threshold.

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

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

FHFA has no real property holdings 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 the advance payments threshold, 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. FHFA implemented a new advance payments threshold beginning on October 8, 2013. The new advance payments threshold is being applied prospectively. The previous and new thresholds are $25,000 and $50,000, respectively.

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, a contingent liability, 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. The contingent liability is the total remaining difference between the projected lease liability and the sublease payments received from the Consumer Finance Protection Bureau for the 1625 Eye Street NW sublease.

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 coverage.

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), FERS-Revised Annuity Employee (RAE), or FERS-Further Revised Annuity Employee (FRAE). FHFA remits the employer's share of the required contribution, which is 11.9% for FERS, 26.3% for FERS Law Enforcement

Officer, 9.6% for FERS-RAE and FERS-FRAE 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 less than five years of prior federal service as of December 31, 2012 is placed under FERS-RAE. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1% 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 2014 maximum taxable wage base for Social Security is $117,000.

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 U.S. generally accepted accounting principles.

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

In addition to the TSP, FHFA offers a supplemental 401(K) plan. All CSRS and FERS employees are eligible to contribute to the 401(K). All eligible employees that participate may contribute up to 10% 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 operating funds and a working capital fund. The funds in the working capital fund were fully invested during fiscal years 2014 and 2013. FBWT account balances as of September 30, 2014 and 2013 were as follows (dollars in thousands):

	2014	2013
Fund Balances:		
Operating Fund	$ 12,161	$ 15,914
Total	**$ 12,161**	**$ 15,914**
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 30,907	$ 39,439
Obligated Balance Not Yet Disbursed	45,205	48,383
Investments	(63,951)	(71,907)
Total	**$ 12,161**	**$ 15,914**

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

Note 3. Investments

Investments as of September 30, 2014 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 63,951	$ –	$ –	$ 63,951	$ 63,951

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

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, 2014 or 2013. Interest earned on investments was $45 thousand and $73 thousand for fiscal years 2014 and 2013, respectively.

Note 4. Accounts Receivable

Accounts Receivable balances as of September 30, 2014 and 2013 were as follows (dollars in thousands):

	2014	2013
Intragovernmental		
Accounts Receivable	$ 17	$ –
Total Intragovernmental Accounts Receivable	**$ 17**	**$ –**
With the Public:		
Accounts Receivable	$ 83	$ 14
Total Public Accounts Receivable	**$ 83**	**$ 14**
Total Accounts Receivable	**$ 100**	**$ 14**

There are no amounts that are deemed uncollectible as of September 30, 2014 and 2013.

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Note 5. Property, Equipment, and Software, Net

Schedule of Property, Equipment, and Software as of September 30, 2014 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 26,372	$ 24,299	$ 2,073
Leasehold Improvements	34,780	6,111	28,669
Internal-Use Software	4,554	4,302	252
Software-in-Development	–	–	–
Construction-in-Progress	–	–	–
Total	**$ 65,706**	**$ 34,712**	**$ 30,994**

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**

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, 2014 consist of the following (dollars in thousands):

	Covered	Not-Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 2,638	$ –	$ 2,638
Other Intragovernmental Liabilities	1,966	–	1,966
Total Intragovernmental Liabilities	**$ 4,604**	**$ –**	**$ 4,604**
Accounts Payable	$ 7,571	$ –	$ 7,571
Unfunded Leave	–	11,291	$ 11,291
Deferred Lease Liabilities	–	25,814	$ 25,814
Other Liabilities	6,139	973	$ 7,112
Total Public Liabilities	**$ 13,710**	**$ 38,078**	**$ 51,788**
Total Liabilities	**$ 18,314**	**$ 38,078**	**$ 56,392**

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**

Note 7. Other Liabilities

Current liabilities are amounts owed by a federal entity as the result of past transactions or events that are payable within the fiscal year following the reporting date. 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, 2014 and September 30, 2013 consist of the following (dollars in thousands):

		2014		2013
Intragovernmental Liabilities				
Funded FECA Liability	$	1	$	5
Unemployment Insurance Liability		–		1
Accrued Funded Payroll		–		36
Payroll Benefits Payable		950		643
Advances and Prepayments		1,015		721
Total Intragovernmental Other Liabilities	**$**	**1,966**	**$**	**1,406**
With the Public				
Employer Benefit Contributions	$	636	$	497
Withholdings Payable		4		–
Accrued Funded Payroll		5,499		2,529
Contingent Liability		973		–
Total Public Other Liabilities	**$**	**7,112**	**$**	**3,026**

Note 8. Leases

Current Operating Leases

1625 Eye Street NW

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, 2014 and 2013 is $2.3 million and $1.4 million, respectively.

During the first quarter of FY 2015, FHFA extended the 1625 Eye Street NW lease. Additionally, FHFA will also extend the IAA with CFPB for CFPB's use of certain already-acquired but unused services, supplies and space available. The IAA includes, but is not limited to, furniture, equipment, IT network infrastructure, and space at 1625 Eye Street, NW. CFPB will reimburse FHFA for the full cost of the lease expenditures.

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 1, 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 twelve 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 twelve 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. FHFA-OIG took occupancy on December 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 twelve months of occupancy. The lease terms of 20 Washington Place expire on September 14, 2022.

233 N Michigan Avenue – Two Illinois Center

FHFA-OIG entered into a lease for office space at 233 N Michigan Avenue (Two Illinois Center), Chicago, IL on July 11, 2014. FHFA-OIG took occupancy on July 21, 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 twelve months of occupancy. The lease terms of 233 N Michigan Avenue expire on November 30, 2020.

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

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

Fiscal Year	Amount	
2015	$	19,315
2016		16,656
2017		16,934
2018		17,272
2019		17,617
Thereafter		42,449
Total Future Payments	**$**	**130,243**

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	
2015	$	2,319
2016		–
2017		–
2018		–
2019		–
Thereafter		–
Total Future Operating Lease Income	**$**	**2,319**

The minimum future payments and income for the October 2014 extension of the Eye Street lease and pending extension of the IAA with CFPB are not included in these charts. The lease extension terms begin on July 1, 2015 and expire on June 30, 2020.

Additionally, FHFA leases contingency space at an undisclosed location. The lease expires on March 31, 2015.

Note 9. Commitments and Contingencies

FHFA recorded a contingent liability in the amount of $973 thousand related to the estimated loss with the Consumer Financial Protection Bureau IAA as of September 30, 2014.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the Regulated Entities. The Regulated Entities include Freddie Mac, Fannie Mae, the twelve FHLBanks, and the Office of Finance. FHFA tracks resource allocations and program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. 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 costs are allocated to FHFA's Resource Management Strategy.

FHFA's revenue was provided by the Regulated Entities through assessments. FHFA-OIG received their funding through a $41.6 million transfer from FHFA in fiscal year 2014 and a $38.1 million transfer in fiscal year 2013. FHFA-OIG's gross expenses for fiscal years 2014 and 2013 were $49 million and $45 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):

	2014	2013
Safety and Soundness		
Intragovernmental Costs	$ 31,153	$ 30,408
Public Costs	113,915	122,711
Total Program Costs	145,068	153,119
Less: Intragovernmental Earned Revenue	2,113	3,394
Less: Public Earned Revenue	112,883	190,372
Net Safety and Soundness Program (Income)/Costs	**30,072**	**(40,647)**
Stability, Liquidity, and Access		
Intragovernmental Costs	11,579	8,746
Public Costs	43,207	32,109
Total Program Costs	54,786	40,855
Less: Intragovernmental Earned Revenue	948	169
Less: Public Earned Revenue	50,647	9,499
Net Stability, Liquidity, and Access Program (Income)/Costs	**3,191**	**31,187**
Conservatorship		
Intragovernmental Costs	267	751
Public Costs	50,968	44,377
Total Program Costs	51,235	45,128
Less: Intragovernmental Earned Revenue	850	244
Less: Public Earned Revenue	45,410	13,690
Net Conservatorship Program (Income)/Costs	**4,975**	**31,194**
Prepare for the Future		
Intragovernmental Costs	4,988	2,505
Public Costs	15,379	8,364
Total Program Costs	20,367	10,869
Less: Intragovernmental Earned Revenue	485	211
Less: Public Earned Revenue	25,922	11,811
Net Prepare for the Future Program (Income)/Costs	**(6,040)**	**(1,153)**
Total Intragovernmental Costs	47,987	42,410
Total Public Costs	223,469	207,561
Total Costs	271,456	249,971
Less: Total Intragovernmental Earned Revenue	4,395	4,018
Less: Total Public Earned Revenue	234,863	225,372
Total Net (Income)/Cost	**$ 32,198**	**$ 20,581**

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 fiscal years 2014 and 2013 consisted of the following (dollars in thousands):

		2014		2013
Direct Obligations Exempt from Apportionment	$	295,334	$	281,086
Reimbursable Obligations Exempt from Apportionment		4,650		3,598
Total Obligations Incurred	**$**	**299,984**	**$**	**284,684**

Note 12. Legal Arrangements Affecting Use of Unobligated Balances

HERA requires that any balance that remains unobligated at the end of the fiscal year, except for amounts assessed for contribution to FHFA's working capital fund, must be credited against the next year's assessment to the Regulated Entities. The Director also has the authority to retain prior year unobligated funds for conservatorship-related activities that were not anticipated during the budget process. As of September 30, 2014 and 2013, the unobligated balance was $30.9 million and $39.4 million, respectively. The portion of the fiscal year 2014 unobligated available balance that will be credited against the Regulated Entities' April 2015 assessments is $4.1 million with the remaining $10 million retained in the working capital fund and $16.8 million retained for conservatorship activities. The portion of the fiscal year 2013 unobligated balance that was credited against the Regulated Entities' April 2014 assessment was $12.6 million with the remaining $10 million retained in the working capital fund and $16.8 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 fiscal year 2014 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2015 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The 2015 Budget of the United States Government, with the "Actual" column completed for 2013, 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, 2014 and 2013, budgetary resources obligated for undelivered orders amounted to $29 million and $34.3 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 $504 for the year ended September 30, 2014. Custodial collections totaled $3.3 thousand for the year ended September 30, 2013. There were no civil penalties assessed or collected in fiscal year 2014 or 2013. 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).

	2014	2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 299,984	$ 284,684
Spending Authority from Offsetting Collections and Recoveries	(56,545)	(53,143)
Obligations Net of Offsetting Collections and Recoveries	243,439	231,541
Offsetting Receipts	(234,907)	(225,445)
Net Obligations	8,532	6,096
Other Resources		
Imputed Financing from Costs Absorbed by Others	7,604	6,425
Net Other Resources Used to Finance Activities	7,604	6,425
Total Resources Used to Finance Activities	**16,136**	**12,522**
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	5,601	380
Resources That Fund Expenses Recognized in Prior Periods	(253)	–
Resources That Finance the Acquisition of Assets	(2,982)	(5,038)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	2,366	(4,658)
Total Resources Used to Finance the Net Cost of Operations	**18,502**	**7,864**
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	303	690
Other	1,983	888
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	2,286	1,578
Components Not Requiring or Generating Resources		
Depreciation and Amortization	9,119	9,755
Revaluation of Assets or Liabilities	2,295	1,385
Other	(4)	(1)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	11,410	11,139
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	13,696	12,717
Net (Income from)/Cost of Operations	**$ 32,198**	**$ 20,581**

Other Information

- FY 2013 Performance Measures No Longer Reported
- OIG Management & Performance Challenges
- Summary of Financial Statements Audit and Management Assurances

FY 2013 Performance Measures No Longer Reported

STRATEGIC GOAL 1	Safe and Sound Housing GSEs		
	FY 2013 Year-End Target	FY 2013 Results	Why discontinued
Measure Goal 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	June 30, 2013	Met	Guidance published in April 2012 as planned. There is nothing further to measure.
Measure Goal 1.2.2 Develop five new examination modules to guide examiners in reviewing and assessing the regulated entities.	March 31, 2013	Met	All five modules were developed and published as planned. There is nothing further to measure.
Measure Goal 1.2.3 Conduct supervisory review of Enterprise compliance processes for tracking and executing conservatorship directives.	September 30, 2013	Met	Review conducted as planned; findings issued. There is nothing further to measure.
Measure Goal 1.2.4 Increased retained earnings for each FHLBank	Year-ended 9/30/13 compared to preceding year	Met	Replaced this measure with 1.2.4: Each FHLBank's Market Value of Equity (MVE) to par ratio. This ratio provides a more dynamic indicator of a FHLBank's overall health than simply looking to its retained earnings balance.

STRATEGIC GOAL 2	Stability, Liquidity, and Access in Housing Finance		
	FY 2013 Year-End Target	FY 2013 Results	Why discontinued
Measure Goal 2.1.2 Number of foreclosure alternatives successfully completed	447,000	Not Met	An improving economy lowered overall delinquency rates. As a result, only 333,819 foreclosure alternatives were completed. A better measure was identified for FY 2014 – "Reduce the volume of Seriously Delinquent Loans which includes all loans in the process of foreclosure plus loans that are three or more payments delinquent."
Measure Goal 2.2.1 Initiate the monthly mortgage market survey.	Q4 FY 2013	Met	Survey initiated as planned and currently in progress. A new measure was created to follow the survey progress.
Measure Goal 2.3.1 Reduce variance in single-family guarantee fees charged to lenders that sell large versus small volumes of mortgages to the Enterprises.	Narrowing variance in year-ending June 30, 2013 from preceding year	Met	The Guarantee fee increase that was announced on August 31, 2012 had a goal of making more uniform the g-fees that Fannie Mae and Freddie Mac charge large vs. small volume lenders. Data released in the December 2013 G-Fee report confirmed that the fees had indeed been made more uniform.
Measure Goal 2.3.2 Increase number/dollar amount of awards to women and minority owned businesses by FHFA.	Increase from prior year as included in the OMWI 2012 Annual Report to Congress	Not Met	Women and minority business engagement is an important priority for FHFA and the GSEs, and continues to be monitored internally.
Measure Goal 2.3.3 Increase number/dollar amount of business awarded to women and minority owners by the entities FHFA regulates.	Increase from prior year as included in the Annual Activity Reports submitted by the Regulated Entities Pursuant to 12 CFR 1207.23	Met	Women and minority business engagement is an important priority for FHFA and the GSEs, and continues to be monitored internally.

STRATEGIC GOAL 3	Preserve and Conserve Enterprise Assets		
	FY 2013 Year-End Target	FY 2013 Results	Why discontinued
Measure Goal 3.1.1 Reduce cross-subsidization in Enterprise single-family guarantee fees	Year-ending June 30, 2013 compared to preceding year	Met	The Guarantee fee increase that was announced on August 31, 2012 had a goal of reducing cross subsidies between higher-risk and lower-risk mortgages. Data released in the December 2013 G-Fee report confirmed that the cross subsidies had indeed been reduced. FHFA is currently evaluating the Enterprises' guarantee fees following the publication of a Request for Input on June 5, 2014. The deadline for stakeholders and the public to submit feedback to this Request for Input ended on September 8, 2014.
Measure Goal 3.1.2 Undertake and defend legal actions that recover upon losses or seek to avoid liability to the GSEs.	Pursue legal actions where available and cost effective	Met	FHFA will consider the costs and benefits of potential litigation and make decisions as appropriate.
Measure Goal 3.1.3 Reduce the amount of current outstanding repurchases.	50 percent	Not Met	The trends in repurchase requests declined and work in the representation and warranty framework area will contribute to further reductions. This metric became less effective as a measurement for a goal.
Measure Goal 3.1.4 Reduce the annual percentage of manufacturing defects at loan origination	From the previous year	Met	Measurement became less effective because the Enterprise measured this number in different ways, so it was difficult to get comparable numbers for the two Enterprises.
Measure Goal 3.1.5 Reduce the annual net of operational loss events.	5 percent	Met	This measurement became less effective because the Enterprises measured this number in different ways, so it was difficult to get comparable numbers for the two Enterprises.

STRATEGIC GOAL 4	Prepare for the Future of Housing Finance in the U.S.		
	FY 2013 Year-End Target	FY 2013 Results	Why discontinued
Measure Goal 4.1.1 Publish a White Paper soliciting public input on a common securitization platform and model pooling and servicing agreement.	Q1 FY 2013	Met	The paper was published as planned. There is nothing further to measure.
Measure Goal 4.1.2 Finalize plan(s) for the securitization platform and pooling and servicing agreement	Q3 FY 2013	Not Met	Plans continue to evolve and become more detailed. This did not prove to be an effective measure of progress.
Measure Goal 4.2.1 Work with the industry to develop servicing data standards and agree on a timetable for data collection.	Q3 FY 2013	Met	The industry and the Enterprise will continue to develop standards through the MISMO and related industry forums.
Measure Goal 4.2.2 Announce, via the Enterprises, selling and servicing policies in support of the Contract Harmonization Project	Q2 FY 2013	Met	The Contract Harmonization Project (CHP) work streams were completed and implemented during calendar years 2012 and 2013, including the selling representations and warranties framework (2013), servicer scorecard, pricing flexibility, partial transfers and other rights/remedies.

OIG Management & Performance Challenges

OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

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

September 30, 2014

TO: Melvin L. Watt, Director

FROM: Michael P. Stephens, Acting Inspector General

SUBJECT: Fiscal Year 2015 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) 2015. In summary, we find that the Agency can make meaningful headway on the challenges identified by recruiting and retaining adequate personnel; exercising its authority as conservator; continuing to recover losses on legacy loans and minimizing future losses to the Enterprises; identifying and managing emerging risks; verifying information received from its regulated institutions; increasing coordination of the GSEs' fraud responses; and successfully implementing the Common Securitization Platform and the National Mortgage Database.

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, Agency documents, publicly available information, and our general knowledge of FHFA's programs and operations. Our analysis considers OIG accomplishments as of September 2014.

If you have any questions, please contact Heath Wolfe, Acting Deputy Inspector General for Audits, at (202) 730-0396, or Alisa Davis, Audit Director, at (202) 730-0382.

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

The Federal Housing Finance Agency Office of Inspector General's Assessment of FY 2015 Management and Performance Challenges

In FY 2014, 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. Director Watt's confirmation as the head of FHFA brings some certainty to the Agency as it charts its course forward. In addition, FHFA progressed in addressing the latter two challenges, for example, by working to issue new conservator letters of instructions to the Enterprises to further improve FHFA oversight of the conservatorships and publishing additional supervisory guidance for addressing areas of key risk to the GSEs, such as cyber risk management and mortgage servicing transfers.[1]

However, FHFA still faces challenges for FY 2015. The uncertain future presents a challenge in recruiting and retaining employees. The Agency is hampered in making longer-term staffing allocations because it does not know what its future role, and thus the associated staffing needs, will be. While only Congress has the legislative authority to decide the future of the Enterprises, which in turn may affect FHFA's organizational structure and scope of responsibility, FHFA has the ability to continue to improve its oversight of the GSEs.

In addition to recruiting and retaining personnel, OIG has identified six more key challenges for FHFA: exercising its authority as conservator; continuing to recover losses on legacy loans; identifying and managing emerging risks; verifying information received from its regulated institutions; increasing coordination of the GSEs' fraud responses; and overseeing successful implementation of the Common Securitization Platform and the National Mortgage Database. The following elaborates on these specific challenges.

1. FHFA Is Challenged to Exercise Its Authority as Conservator.

The first challenge is that the Agency has afforded undue deference to Enterprise management. In part, this issue stems from uncertainty about the future direction of the Enterprises. OIG has reported several instances of such deference. For example:

- OIG identified in a February 2014 report that FHFA has neither reviewed nor evaluated the servicers' overall compliance with numerous Servicing Alignment Initiative (SAI)-related guidelines and performance goals implemented in 2011, even though Enterprise reports, many of which are not provided routinely to FHFA, indicate considerable servicer non-compliance with SAI's requirements.[2] FHFA's position is that it does not directly regulate the Enterprises' servicers, and that it has delegated to the Enterprises the responsibility to ensure that their servicers comply with SAI. OIG understands that FHFA does not directly regulate servicers, but that

[1] FHFA, *Advisory Bulletin 2014-05* and *Advisory Bulletin 2014-06*. Available at http://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins?k=ContentType%3AFHFA%2DAdvisory%20Bulletins%20AND%20FHFAPublishedDateOWSDATE%3D01%2F01%2F2014%2E%2E12%2F31%2F2014.

[2] OIG, *FHFA's Oversight of the Servicing Alignment Initiative* (EVL-2014-003, February 12, 2014). Available at http://www.fhfaoig.gov/Content/Files/EVL-2014-003.pdf.

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fact is irrelevant to the oversight deficiencies identified in this report. FHFA established SAI and prescribed the standards that servicers must meet in fulfilling their contracts with the Enterprises. FHFA's delegation of day-to-day SAI implementation responsibilities to the Enterprises does not absolve FHFA of its responsibility to determine whether SAI is positively impacting servicer performance.

- OIG reported in January 2014 that Fannie Mae established a remediation plan for servicers that may have improperly collected borrower contributions on short sales in California to refund those payments.[3] While OIG recommended that FHFA provide guidance and oversight for the return of borrower contributions, FHFA stated it would monitor execution of Fannie Mae's remediation plan. FHFA's reliance on Fannie Mae's oversight framework will not provide for the consistent return of borrower contributions as OIG recommended. Under Fannie Mae's framework, each servicer will independently interpret the California law and decide whether to return contributions to impacted borrowers. In particular, the servicers would decide whether contributions made prior to amendments to California law would be refunded. Therefore, different servicers could come to varying conclusions about refunding contributions even if borrower circumstances are similar. For example, two large servicers have already taken the legal position that refunds are not warranted for contributions collected before amendments to California law went into effect. OIG considers it necessary for FHFA to actively engage in oversight of this effort, including issuing appropriate guidance to ensure that borrowers receive consistent treatment by servicers concerning refund of borrower contributions.

- OIG contracted with CohnReznick LLP (CohnReznick) to perform an audit of FHFA's oversight of the financial condition of the mortgage insurers used on loans purchased by the Enterprises and their risk exposure.[4] One of CohnReznick's findings in its May 2014 report is that FHFA delegated the approval decision for a new mortgage insurer to the Enterprises. Such delegated approval is limited to counterparties where there are no reasonably foreseeable material increases in operational risk, which is generally not the case for a new mortgage insurer. Additionally, FHFA did not have a formal process for evaluating new mortgage insurers, including Enterprise risk assessments and justification for conditional approval requirements. Given the importance of mitigating the risk posed by new mortgage insurers, the direct involvement of FHFA in the review and approval process would strengthen governance over these decisions.

[3] OIG, *FHFA Oversight of Fannie Mae's Remediation Plan to Refund Contributions to Borrowers for the Short Sale of Properties* (AUD-2014-004, January 15, 2014). Available at http://www.fhfaoig.gov/Content/Files/AUD-2014-004_0.pdf.

[4] CohnReznick LLP, *FHFA's Oversight of Enterprise Monitoring of the Financial Condition of Mortgage Insurers* (AUD-2014-003, May 8, 2014). Available at http://www.fhfaoig.gov/Content/Files/AUD-2014-013.pdf.

Other Information

2. FHFA Is Challenged to Recover on Legacy Loans and Minimize Future Loan Losses to the Enterprises.

Another challenge FHFA faces is losses to the Enterprises stemming from poorly underwritten loans, some of which were later securitized and sold to investors. The majority of such losses relate to loans acquired prior to 2009 ("legacy" loans), but the Agency and Enterprises must also remain diligent that loans acquired since then are properly underwritten. Indeed, the Enterprises continue to reserve for ongoing losses on loans in their portfolios and guaranty losses on loans purchased and then sold to investors. As of June 30, 2014, Fannie Mae had a total loss reserve of $42.1 billion, while Freddie Mac had a total loss reserve of $22.8 billion.

FHFA is making progress on recovering on legacy loan losses to the Enterprises. According to public data, FHFA has settled for more than $18 billion with 18 sellers/companies regarding alleged securities law violations, and in some instances, alleged fraud in the sale of private-label mortgage-backed securities sold.[5] FHFA indicates it has three cases remaining.

In addition to its efforts to recover on legacy loan losses, FHFA is challenged as conservator to ensure the Enterprises minimize future losses on loans acquired. FHFA implemented a new framework that relieves sellers from certain representations and warranties, such as those relating to credit underwriting and eligibility of the borrower and the property, which were formerly effective for the life of the loan. Under the new framework, repurchase relief is granted to sellers if loans acquired by the Enterprises on or after January 1, 2013, meet specific acceptable payment history criteria of 12, 36, or 60 months, depending on the loan product and when the Enterprises acquired the loan. Therefore, the new framework transfers responsibility to the Enterprises to review loans upfront for eligible representations and warranties deficiencies that may trigger repurchase requests. In spite of the additional responsibility now borne by the Enterprises to check earlier the quality of loans acquired, a September 2014 OIG report identified that FHFA mandated this new framework despite significant unresolved operational risks to the Enterprises.[6] Neither Enterprise had implemented the processes, procedures, and systems needed to operate within the new framework before it went into effect in 2013.

In addition to a lack of infrastructure to implement the new framework, OIG found that FHFA's analysis was not robust enough to consider additional risks of moving to the new framework. For example, the Agency mandated a 36-month sunset period for representation and warranty relief without validating the Enterprises' analysis or performing sufficient additional analysis to appropriately balance financial risk between the Enterprises and sellers. Moreover, the analyses supplied by the Enterprises were not consistent as there were significant differences between the vintage of the loans tested, sunset periods, sample sizes, and life of loan default information for loans that met the sunset period criteria. Also, FHFA did not analyze the costs and benefits to determine whether the 36-month period would result in an economic return to the Enterprises.

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[5] FHFA, "FHFA's Update on Private Label Securities Actions: 2013 and 2014 Settlements and Remaining Cases" (9/12/2014). Accessed September 16, 2014, at http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFAs-Update-on-Private-Label-Securities-Actions.aspx.

[6] OIG, *FHFA's Representation and Warranty Framework* (AUD-2014-016, September 17, 2014). Available at http://www.fhfaoig.gov/Content/Files/AUD-2014-016.pdf.

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The Agency should continue its efforts to ensure the Enterprises minimize future losses on acquired loans, along with determining the requisite infrastructure is in place.

3. FHFA Is Challenged to Identify and Manage Emerging Risks.

A third challenge for FHFA is to identify and manage emerging risks. In particular, OIG reported in July and August 2014 on the increasing concentration of Enterprise business with nonbank mortgage origination and servicing companies over the past several years.[7] However, FHFA only recently began focusing attention on these counterparties. Further, FHFA has not demonstrated that it has an integrated, comprehensive approach for managing the emerging risks such counterparties pose to the Enterprises. For example, OIG issued two reports on the Enterprises' non-bank counterparties that identify improvement opportunities in FHFA's approach to managing emerging risks.

- First, OIG reported that FHFA (and the Enterprises) have responded well to specific problems at nonbank special servicers, but the Agency has not established a risk management process or overall oversight framework to handle some general risks posed by nonbank special servicers.[8]
- In a complementary report, *Recent Trends in the Enterprises' Purchases of Mortgages from Smaller Lenders and Nonbank Mortgage Companies*, OIG identified similar trends among nonbank sellers. In recent years, the Enterprises have seen a shift in the composition of their mortgage sellers, with relatively fewer sales from large depository institutions and more sales from smaller lenders and nonbank mortgage companies.[9]
- Although FHFA has conducted some supervisory work related to specialty servicers, and they plan to perform additional work relating to smaller lenders and nonbank mortgage origination companies, it has not conducted focused examinations of the shift since the trend of increasing direct sales of mortgages from smaller counterparties started in 2011.[10] The Agency's 2014 planning documents indicate that it has scheduled several examinations of the Enterprises' management of the risks associated with their smaller lenders and nonbank mortgage origination companies.

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[7] Of the 30 largest mortgage servicers, those that were not banks held a 17% share of the mortgage servicing market at the end of 2013, up from 9% at the end of 2012, and 6% at the end of 2011. This rise in nonbank special servicers has been accompanied by consumer complaints, lawsuits, and other regulatory actions as the servicers' workload outstrips their processing capacity.

[8] OIG, *FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages* (AUD-2014-014, July 1, 2014). Available at http://www.fhfaoig.gov/Content/Files/AUD-2014-014.pdf.

[9] OIG, *Recent Trends in the Enterprises' Purchases of Mortgages from Smaller Lenders and Nonbank Mortgage Companies* (EVL-2014-010, July 17, 2014). Available at http://www.fhfaoig.gov/Content/Files/EVL-2014-010_0.pdf.

[10] During 2013, FHFA conducted high-level examinations of the Enterprises' counterparty risk management controls and reviewed the risks associated with specialized mortgage servicers. However, we concluded that, due to other examination priorities, FHFA did not test and validate the effectiveness of the controls put in place by the Enterprises to address the recent increase in mortgage sales from smaller and nonbank lenders.

Further, FHFA officials said that the Agency is developing guidance intended to strengthen the Enterprises' counterparty risk management.

4. FHFA Is Challenged to Verify Information Received from its Regulated Institutions.

A fourth management challenge is that FHFA relies on information supplied by its regulated institutions without independent verification. The GSEs produce and store volumes of data, some of which is based on information from their counterparties. While FHFA receives standard and ad hoc reporting from the GSEs, FHFA does not validate the accuracy and completeness of certain information. For example:

- In March 2014, OIG reported that the data the Federal Home Loan Banks (FHLBanks) submitted to FHFA may not be reliable.[11] For example, FHLBanks used differing approaches to categorize individual and group director expenses. Moreover, OIG found differences in two cases when we compared the data the FHLBanks submitted to FHFA regarding 2012 director expenses with the information they reported to the U.S. Securities and Exchange Commission (SEC) in their public disclosures. One FHLBank told OIG that the data it submitted was incorrect by approximately $30,000. We determined that FHFA did not review the data submissions and, therefore, did not identify inconsistencies among them.

- In a September 2014 report, OIG identified that FHFA can improve its oversight of how the Enterprises assure counterparties comply with their selling and servicing guidance and deliver accurate data.[12] The Enterprises rely on counterparties' compliance under the representation and warranty framework without a third-party independent verification, which may complicate the discovery of problems and unreliable data. In fact, the OIG report highlights that a particular servicer lacked adequate infrastructure to handle its increased loan volume, which led to consumer complaints and delayed payments to the Enterprises.[13] Such delays may affect the accuracy of those borrowers' payment histories, which is included in the myriad data that the Enterprises report to FHFA, which then aggregates various loan-level data for reporting purposes.

To FHFA's credit, the Agency is continuing to develop and refine a database of loan-level information from the Enterprises that will allow it to compare aggregated data to the Enterprises' regulatory reporting, some of which is included in FHFA's public disclosures, such as its Annual Report to Congress and its Foreclosure Prevention Report.[14] The Agency states it has also created numerous rules "to assess the internal consistency of the data on individual mortgage

[11] OIG, *FHFA's Reporting of Federal Home Loan Bank Director Expenses* (EVL-2014-005, March 20, 2014). Available at http://www.fhfaoig.gov/Content/Files/EVL-2014-005.pdf.

[12] OIG, *FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines* (AUD-2014-018, September 26, 2014). Available at http://www.fhfaoig.gov/Content/Files/AUD-2014-018.pdf.

[13] Ibid.

[14] FHFA, "Mortgage Loan Integrated System (MLIS) Overview and Status Update," August 2014.

records." However, comparing Enterprise-supplied data that has not been verified as accurate and complete with the sellers and servicers who originate that information still runs the risk of FHFA using unreliable data for oversight and regulatory reporting.

5. FHFA Is Challenged to Increase Coordination of the GSEs' Fraud Responses.

FHFA is also challenged to increase coordination among the Government-Sponsored Enterprises (GSEs) when responding to fraud. To help address the risk to the GSEs presented by individuals and entities with a history of fraud or other financial misconduct, the Agency established the Suspended Counterparty Program in 2012.[15] This program requires each of the GSEs to report to the Agency when it becomes aware that an individual or institution with which it is doing or has done business has committed fraud or other financial misconduct within a specified time period. FHFA states that it reviews the reports to determine whether additional action is needed by FHFA to limit the risk of the regulated entities continuing to do business with the individual or institution, in order to protect the safe and sound operation of the regulated entities. Under this program, FHFA may issue orders suspending an individual or entity from doing business with the GSEs. FHFA maintains a list of each person who is currently suspended under the program.[16] While the Suspended Counterparty Program is a start, FHFA has more work to increase coordination among the GSEs regarding counterparties who have committed fraud and other financial misconduct.

Although the GSEs are required to report to FHFA all fraud or other financial misconduct by a counterparty, the Agency does not require the regulated entities to share such information among themselves. While concerns may have been raised with the GSEs about sharing counterparty information, doing so could mitigate the risk of a reported counterparty continuing business with another GSE, since the GSEs do business with some of the same counterparties. A classic example of a lack of information sharing regarding fraud is the Taylor, Bean & Whitaker Mortgage Corporation (TBW) case. OIG reported in 2012[17] and more recently in August 2014[18] that increased coordination of the GSEs' fraud responses could have mitigated losses incurred by Freddie Mac. Fannie Mae terminated its relationship with TBW because of suspicious activity in April 2002, but Freddie Mac, who was unaware of Fannie Mae's termination reasons, shortly thereafter increased its business volume with TBW. OIG and other law enforcement agencies ultimately uncovered fraud between TBW and Colonial Bank, which led to a July 2011 sentencing of the former TBW Chairman to 30 years in prison. After the fraud was discovered, Freddie Mac filed a $1.78 billion proof of claim in TBW's bankruptcy proceedings. It would

[15] 12 CFR Part 1227 and "FHFA Establishes Additional Anti-Fraud Measure for Fannie Mae, Freddie Mac and Federal Home Loan Banks." Available at http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Establishes-Additional-AntiFraud-Measure-for-Fannie-Mae-Freddie-Mac-and-Federal-Home-Loan-Banks.aspx.

[16] FHFA, "Suspended Counterparty Program." Accessed September 2, 2014, at http://www.fhfa.gov/SupervisionRegulation/LegalDocuments/Pages/SuspendedCounterpartyProgram.aspx.

[17] OIG, *FHFA's Oversight of the Enterprises' Management of High-Risk Seller/Servicers* (AUD-2012-007, September 18, 2012). Available at http://www.fhfaoig.gov/Content/Files/AUD-2012-007.pdf.

[18] OIG, *Systemic Implication Report: TBW-Colonial Investigation Lessons Learned* (SIR-2014-0013, August 21, 2014). Available at http://www.fhfaoig.gov/Content/Files/SIR_TBW_Colonial%20Investigation%20Lessons%20Learned%20August%202014.pdf.

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Other Information

behoove FHFA to apply lessons learned and ensure better communication among the GSEs of identified fraud and financial misconduct.

6. FHFA Is Challenged to Oversee Successful Implementation of the Common Securitization Platform and the National Mortgage Database.

Finally, FHFA is challenged in accomplishing its goal for the Enterprises to successfully implement the Common Securitization Platform (CSP) and the National Mortgage Database. FHFA established goals for the Enterprises' in its Conservatorship Scorecard, one of which is to build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future. FHFA's Director has stated that the CSP project has "many variables," and indicated in May 2014 that FHFA is working with the Enterprises to "de-risk" the project.[19] As a result, the project objectives and scope were clarified and modified. However, OIG has reported that legislative uncertainty and the Director's view that the Enterprises should issue a single security may add challenges to successfully implementing CSP, a project which is already quite challenging.

While some progress has been made in developing the CSP, OIG reported that the project faces considerable challenges that could undermine its prospects for success, including: (1) the difficulties inherent in developing a large-scale information technology system and (2) the risks involved with preparing the Enterprises to integrate with the CSP.[20] Yet, to date FHFA has not fully employed two basic project management tools in its effort to develop the CSP: a comprehensive timeline and total cost estimate for the project. Although FHFA, Fannie Mae, Freddie Mac, and Common Securitization Solutions, LLC have all proposed interim schedules and budgets, OIG reported that an FHFA official cited obstacles to developing a comprehensive and final timeline and cost estimate for the CSP, such as the modification of the Enterprises' internal systems to communicate with the CSP.

With respect to the National Mortgage Database (NMDB), the Agency is challenged to create the database to fulfill its needs, while safeguarding the loan-level borrower data that will be stored. The Agency is building the database to collect and organize loan-level information on first-lien single-family mortgages in existence from January 1998 forward. The project is jointly funded and managed by FHFA and the Consumer Financial Protection Bureau. When fully operational, the NMDB will support accomplishment of FHFA's statutory reporting responsibilities and help regulators better understand emerging mortgage and housing market trends.[21]

On its website in August 2014, the Agency responded with measures it is taking to address a number of comments it said it received concerning information that could come into FHFA's

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[19] Prepared Remarks of Melvin L. Watt at the Brookings Institution Forum on the Future of Fannie Mae and Freddie Mac "*Managing the Present: The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*" (May 13, 2014). Accessed July 14, 2014, at http://www.fhfa.gov/Media/PublicAffairs/Pages/Watt-Brookings-Keynote-5132014.aspx.

[20] OIG, *Status of the Development of the Common Securitization Platform* (EVL-2014-008, May 21, 2014). Available at http://www.fhfaoig.gov/Content/Files/EVL-2014-008.pdf.

[21] FHFA, "National Mortgage Database." Accessed September 5, 2014, at http://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/National-Mortgage-Database.aspx.

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Other Information

possession in connection with the development of the NMDB.[22] Such comments may echo OIG's concern about FHFA ensuring proper controls over collected loan-level data. As part of its response on August 1, 2014, FHFA stated that certain data it previously indicated would be obtained, such as religion, language, census block, and latitude and longitude, are not intended to be a part of the database. Further, the Agency indicated the NMDB will contain only de-identified data and will not identify particular borrowers. Finally, FHFA stated that it has established strong information security systems and protocols and will maintain an ongoing review as well as retain a third-party consultant to ensure the reliability of those systems and protocols.[23] Because of the recent headlines about data breaches at large institutions, the Agency should be careful to take the proper precautions as it develops the database.

Summary

FHFA made strides in addressing the FY 2014 challenges, for example, by working to issue new conservator letters of instructions to the Enterprises and providing additional supervisory guidance for addressing areas of key risk to the GSEs. OIG encourages FHFA to maintain the momentum in FY 2015 by recruiting and retaining adequate personnel; exercising its authority as conservator; continuing to recover losses on legacy loans and minimizing future losses to the Enterprises; identifying and managing emerging risks; verifying information received from its regulated institutions; increasing coordination of the GSEs' fraud responses; and overseeing successful implementation of the CSP and the NMDB.

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[22] FHFA, "FHFA Update About the National Mortgage Database" (August 1, 2014). Available at http://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/NMDB_Update_08012014.pdf.

[23] Ibid.

Summary of Financial Statements Audit and Management Assurances

TABLE 1: Summary of Financial Statements Audit

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

TABLE 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 2014, the dollar amount subject to prompt payment was $76.2 million. The amount of interest penalty paid in FY 2014 was $596 or 0.0000078 percent of the total dollars disbursed.

Appendix

Glossary

Advances – FHLBank's loans to member institutions.

BASEL Standards – Recommendations on banking laws and regulations issued by the international BASEL committee on banking supervision

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.

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

Connecticut Avenue Securities – Securities issued by Frannie Mae that transfer a share of the credit risk with respect to Fannie Mae's single-family mortgage backed securities.

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.

Foreclosure – A legal process dictated by state law in which the mortgaged property is sold to pay off the mortgage of the defaulting borrower.

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, the 12 Federal Home Loan Banks, and the Office of Finance.

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) – MRAs are the most serious supervisory matters. They include, among others, such matters as non-compliance with laws or regulations that result or may result in significant risk of financial loss or damage to the regulated entity; repeat deficiencies that have escalated due to insufficient action or attention; unsafe or unsound practices; and matters that have resulted, or are likely to result, in a regulated entity being in an unsafe or unsound condition. MRAs also include breakdowns in risk management, significant control weaknesses, or inappropriate risk-taking.

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.

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

Reports of Examination (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.

Structured Agency Credit Risk (STACR) – Securities issued by Freddie Mac that transfer a share of the credit risk with respect to Freddie Mac's single-family mortgage backed securities.

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.

Acronyms

AHP	Affordable Housing Program
AMA	Acquired Member Assets
CAMELSO	Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk
CEAR	Certificate for Excellence in Accountability Reporting
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CIP	Community Investment Program
COOP	Continuity of Operations
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC™
DBR	Division of FHLBank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DHS	Department of Homeland Security
DOC	Division of Conservatorship
ECIC	Executive Committee on Internal Controls
EESA	Emergency Economic Stabilization Act of 2008
ESR	Evaluation Survey Report
EVL	Evaluations
Fannie Mae	Federal National Mortgage Association
FEMA	Federal Emergency Management Agency
FHFA	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency - Office of the Inspector General
FHLBank	Federal Home Loan Bank
FISMA	Financial Information Security Management Act
FMFIA	Federal Managers Financial Integrity Act of 1982
FMS	Federal Management System
Freddie Mac	Federal Home Loan Mortgage Corporation
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
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
HQ	Headquarters
IPP	Incentive Payment Program
KPI	Key Performance Indicators
LPI	Lender-Placed Insurance
LLC	Limited Liability Company
LTV	Loan to Value
MBS	Mortgage-Backed Securities
MI	Mortgage Insurers
MISMO	Mortgage Industry Standards Maintenance Organization
MRA	Matter Requiring Attention
MSR	Mortgage Servicing Rights
MVE	Market Value of Equity
NCST	National Community Stabilization Trust
NIST	National Institute of Standards and Technology
NMDB	National Mortgage Database Project
NSI	Neighborhood Stabilization Initiative
OC	Office of Counsel under FHFA-OIG
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority Women and Inclusion
PLS	Private-Label Mortgage-Backed Securities
PMIERS	Private Mortgage Insurance and Eligibility Requirements
POA&Ms	Plan of Action and Milestones
PRISM	Procurement Request Information System Management
PSPA	Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
REO	Real Estate Owned
RFI	Request for Input
SA&A	Security Assessment and Authorization
SAI	Service Alignment Initiative
SDTI	Servicing Data Technology Initiative
SORN	System of Records Notice
STACR	Structured Agency Credit Risk
UPB	Unpaid Principal Balance

Index of Figures

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