



Highlights of [GAO-10-218](#), a report to congressional committees

Why GAO Did This Study

The Housing and Economic Recovery Act of 2008 (HERA) created the Federal Housing Finance Agency (FHFA) and gave it responsibility for, among other things, the supervision and oversight of Fannie Mae, Freddie Mac, and the 12 federal home loan banks. Specifically, FHFA was assigned responsibility for ensuring that each of the regulated entities operates in a fiscally safe and sound manner, including maintenance of adequate capital and internal controls, and carries out its housing and community development finance mission. HERA also requires FHFA to annually prepare financial statements, and further requires GAO to audit these statements.

Pursuant to HERA's requirement, GAO audited FHFA's fiscal year 2009 financial statements to determine whether (1) the financial statements were fairly stated and (2) FHFA management maintained effective internal control over financial reporting. GAO also tested FHFA's compliance with selected laws and regulations.

GAO is not making any recommendations in this report. In commenting on a draft of this report, FHFA noted the challenges it faced in establishing the new agency while working to stabilize the housing market. It noted that it would continue to work to enhance its internal controls and ensure the reliability of its financial reporting, its operational soundness, and public confidence in its mission.

[View GAO-10-218](#) or [key components](#). For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

FINANCIAL AUDIT

Federal Housing Finance Agency's Fiscal Year 2009 Financial Statements

What GAO Found

In GAO's opinion, FHFA's fiscal year 2009 financial statements are fairly presented in all material respects. GAO also concluded that FHFA had effective internal control over financial reporting as of September 30, 2009. GAO found no reportable instances of noncompliance with the laws and regulations it tested.

HERA established FHFA as an independent agency on July 30, 2008, and abolished, effective within 1 year of enactment, the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (FHFBB) – which, together with a mission group within the Department of Housing and Urban Development (HUD), had previous supervisory and oversight responsibilities for Fannie Mae, Freddie Mac, and the 12 federal home loan banks. During fiscal year 2009, OFHEO's and FHFBB's personnel, property, and program activities, and certain employees and activities of HUD, were transferred to FHFA, and the assets, liabilities, and financial transactions of OFHEO and FHFBB were consolidated into FHFA. While FHFA was in existence prior to the start of fiscal year 2009, this was its first full year of operations and the first year for which it prepared financial statements. Consequently, FHFA's financial statements do not present comparative information for the prior year.

In early September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the Director of FHFA, with the stated intent to stabilize these entities. The assets, liabilities, and activities of the two entities, Fannie Mae and Freddie Mac, are not reflected in FHFA's fiscal year 2009 financial statements, based on determinations by the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) that they did not meet the criteria for inclusion in the financial statements of the U.S. government or the Treasury under federal accounting concepts. Specifically, OMB and Treasury concluded this because the entities are not currently reflected in the federal government's budget and because the conservatorship arrangement is considered to be temporary. FHFA management concurred with this conclusion. Should circumstances change, this decision would need to be revisited.

Over the longer term, Congress and the executive branch face difficult decisions on how to restructure the entities and promote housing opportunities while limiting the risks to taxpayers and the financial markets. GAO issued a report containing a framework for evaluating various options available.

GAO noted other less significant matters involving FHFA's internal controls and will be reporting separately to FHFA management on these matters.