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

November 16, 2020

The Honorable Michael Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

Financial Audit: Federal Housing Finance Agency's FY 2020 and FY 2019 Financial Statements

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2020 and 2019 financial statements of the Federal Housing Finance Agency (FHFA), which is incorporated in the enclosed *Federal Housing Finance Agency Performance and Accountability Report for Fiscal Year 2020*.

As discussed more fully in the auditor's report that begins on page 59 of the enclosed agency performance and accountability report, we found

- the FHFA financial statements as of and for the fiscal years ended September 30, 2020, and 2019, 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, 2020; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The Housing and Economic Recovery Act of 2008 established FHFA as an independent agency empowered with supervisory and regulatory oversight of the housing-related government-sponsored enterprises: the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the 11 Federal Home Loan Banks, and the Office of Finance.[1] This act requires FHFA to prepare financial statements annually and requires GAO to audit the agency's financial statements.[2] In accordance with the act, we have audited FHFA's financial statements.

[1]The 11 Federal Home Loan Banks and the Office of Finance, whose primary function is to issue and service all debt securities for the Federal Home Loan Banks, constitute the Federal Home Loan Bank System.

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

We are sending copies of this report to the Chairman of the Federal Housing Finance Oversight Board, the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Chairman of the Securities and Exchange Commission, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staffs have any questions concerning this report, please contact me at (202) 512-3406 or clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Cheryl E. Clark

Cheryl E. Clark
Director, Financial Management and Assurance

Enclosure

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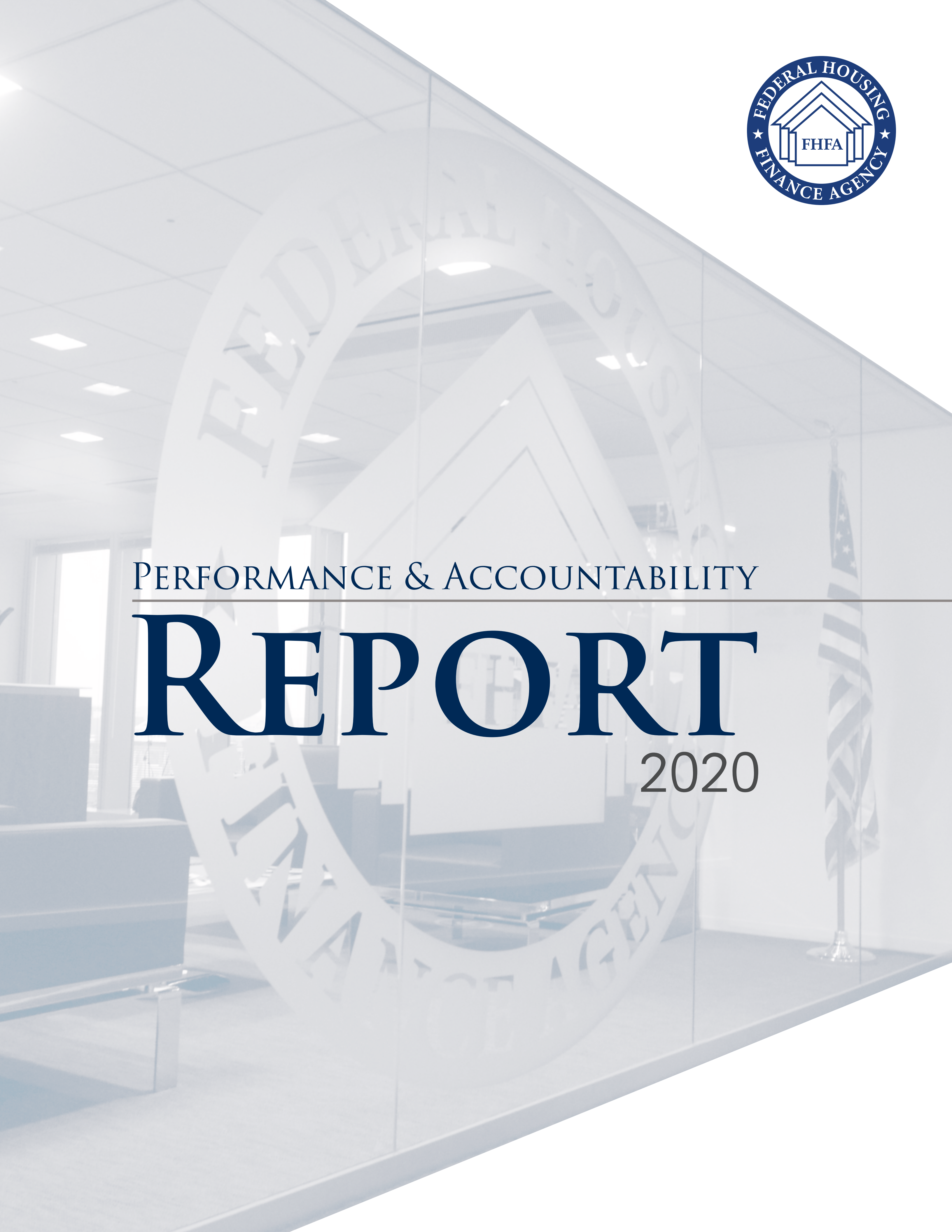

Performance & Accountability

Report

2020

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Message from the Director

This FY 2020 Performance and Accountability Report provides the financial statements and analysis for the Federal Housing Finance Agency (FHFA), and it assesses the performance of FHFA as regulator of the Federal Home Loan Bank System and as regulator and conservator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – together, the Enterprises. This report meets the requirements of the Government Performance and Results Modernization Act of 2010, and its financial and performance data are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

The strategic goals against which this report evaluates the Agency's performance were established more than a year before the beginning of my term as FHFA Director. As such, while continuing to meet these existing goals, I have also transitioned the Agency and its regulated entities toward new goals that I believe are necessary to enable FHFA to fulfill its statutory responsibilities. To that end, in September 2020 we released a new Strategic Plan that updates FHFA's mission, vision, and values, and establishes three new strategic goals that will guide the Agency through FY 2024:

1) Ensure safe and sound regulated entities through world-class supervision.

2) Foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets.

3) Position the Agency as a model of operational excellence by strengthening the workforce and infrastructure.

Together, these strategic goals aim to strengthen FHFA and foster a more resilient housing finance system that protects taxpayers and supports affordable and sustainable homeownership.

For much of the past fiscal year, FHFA has been moving swiftly and prudently to respond to the challenges presented by COVID-19. FHFA's greatest asset is the Agency's workforce. Therefore, in mid-March, FHFA implemented teleworking flexibilities that enabled our staff to remain safe and manage at-home obligations, while continuing to fulfill the Agency's vital mission. The FHFA team seamlessly transitioned to a virtual environment.

Across all divisions and offices, FHFA's employees have remained focused on fulfilling the Agency's important mission, united by a shared vision that Americans should not have to worry about losing their homes during the COVID emergency. We have worked closely with our regulated entities to execute a data-driven response that supports borrowers and renters while ensuring the functioning of the mortgage market both during and after this crisis. A timeline of FHFA's COVID policy response can be found on pages 6-7 of this report.

While responding to COVID, FHFA also continued to carry out the Agency's statutory responsibilities. For example, in May, FHFA released a re-proposed regulatory capital framework for the Enterprises that is built on the lessons of the 2008 crisis. Meeting all the capital rule's requirements will be essential to Fannie and Freddie becoming financially safe and sound. As discussed in this report, COVID caused the Agency to delay the release of the rule such that it will now be finalized in FY 2021. Finalizing this rule is a necessary step to ending the conservatorships of Fannie Mae and Freddie Mac.

Responsibly ending the conservatorships, FHFA's statutory obligation, will require the Enterprises to achieve safety and soundness. They must be well-regulated and well-capitalized so that once they exit, they never return.

To accomplish this, FHFA has executed important steps over the past fiscal year to strengthen the Agency and improve the resilience of our nation's mortgage finance system. Many of those actions are highlighted in this report.

This report demonstrates that FHFA performed well under the existing strategic goals and finds that the Agency has no material internal control weaknesses. For the 12th consecutive audit, FHFA received an unmodified audit opinion on its financial statements from the U.S. Government Accountability Office. This strong performance is a testament to the dedicated, hardworking, and professional staff of FHFA. Now is the time to build on this foundation by implementing changes that create a more resilient housing finance system that protects taxpayers, serves borrowers and renters, and ensures stable mortgage access throughout the housing cycle.

Sincerely,

MARK A. CALABRIA

Director, Federal Housing Finance Agency

November 16, 2020

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

MISSION

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

VISION

FHFA is a world-class independent regulatory Agency that ensures a competitive, liquid, efficient, and resilient (CLEAR) housing finance market.

VALUES

FHFA's culture is built on a foundation of promoting diversity and inclusion in our internal practices and those of our regulated entities. As such, we expect all FHFA employees to emulate the following values:

FAIRNESS	We value varied perspectives and thoughts and treat others with impartiality.
ACCOUNTABILITY	We are responsible for carrying out our work with transparency and professional excellence.
INTEGRITY	We are committed to the highest ethical and professional standards to inspire trust and confidence in our work.
RESPECT	We treat others with dignity, share information and resources, and collaborate.

[1] FHFA released its Strategic Plan for Fiscal Years 2021-2024 in October 2020 which included an updated mission, vission and values for the Agency.

List of Abbreviations

Abbreviation	Description
AAWG	A-123 Assessment Working Group
AB	Advisory Bulletin
AHP	Affordable Housing Program
AMA	Acquired Member Assets
AMI	Area Median Income
APP	Annual Performance Plan
ARM	Adjustable Rate Mortgage
ARRC	Alternative Reference Rates Committee
ASU	Accounting Standard Update
Bank Act	Federal Home Loan Bank Act
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CEAR	Certificate of Excellence in Accountability Reporting
CECL	Current Expected Credit Losses
CFPB	Consumer Financial Protection Bureau
CICA	Community Investment Cash Advance
CIP	Community Investment Program
CLEAR	Competitive, Liquid, Efficient, and Resilient
COOP	Continuity of Operations
CRT	Credit Risk Transfer
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
D&I	Diversity and Inclusion
DAFS	Division of Accounting and Financial Standards
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DFAST	Dodd-Frank Act Stress Test
DHMG	Division of Housing Mission and Goals
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOR	Division of Resolutions
DRS	Division of Research and Statistics
ECIC	Executive Committee on Internal Controls
EEO	Equal Employment Opportunity
Fannie Mae	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FEVS	Office of Personnel Management's Federal Employee Viewpoint Survey
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
Freddie Mac	Federal Home Loan Mortgage Corporation
GAO	U.S. Government Accountability Office

Abbreviation	Description
GSA	U.S. General Services Administration
HERA	Housing and Economic Recovery Act of 2008
HFE	Housing Finance Examiner
HPI	House Price Index
HUD	U.S. Department of Housing and Urban Development
IT	Information Technology
LEP	Limited English Proficiency
LIBOR	London Interbank Offered Rate
LTV	Loan-to-Value
MBS	Mortgage-Backed Security
MRA	Matter Requiring Attention
MVE	Market Value of Equity
MWI	Minority and Women Inclusion
MWOBs	Minority- and Women-Owned Businesses
NMDB®	National Mortgage Database
NSMO	National Survey of Mortgage Originations
OA	Occupancy Agreement
OBFM	Office of Budget and Financial Management
OECD	Organization for Economic Co-operation and Development
OEOF	Office of Equal Opportunity and Fairness
OF	Office of Finance (of the Federal Home Loan Bank System)
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPM	U.S. Office of Personnel Management
OQA	Office of Quality Assurance
PAR	Performance and Accountability Report
PPP	Paycheck Protection Program
PSPA	Senior Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
QC	Quality Control
RFI	Request for Input
ROE	Report of Examination
Safety and Soundness Act	Federal Housing Enterprises Financial Safety and Soundness Act of 1992
SOFR	Secured Overnight Financing Rate
SP	Special Publication
TBA	To-Be-Announced
Treasury	U.S. Department of the Treasury
UMBS	Uniform Mortgage-Backed Security
UPB	Unpaid Principal Balance
U.S. GAAP	U.S. Generally Accepted Accounting Principles
U.S.C.	United States Code

MANAGEMENT'S DISCUSSION AND ANALYSIS

In This Chapter

FHFA's Response to COVID-19

Starting before the President declared a national emergency on March 13 and the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, the Federal Housing Finance Agency (FHFA) took decisive action to support the market and provide relief to renters and borrowers with a mortgage backed by Fannie Mae or Freddie Mac (the Enterprises). In FY 2020, FHFA issued numerous statements and policy changes to respond to the COVID-19 national emergency, which are summarized below. For the latest policies, visit www.fhfa.gov.

Preventing Foreclosures and Evictions for Homeowners and Renters

- On March 10, FHFA reminded servicers that hardship-related forbearance is an option for borrowers who are unable to make their monthly mortgage payment and encouraged borrowers who may be experiencing a hardship to reach out to their servicer.
- On March 18, FHFA announced a moratorium on foreclosures and foreclosure-driven evictions for Enterprise-backed single-family mortgages.
- On March 18, FHFA extended existing disaster-related forbearance and loss mitigation flexibilities to borrowers affected by COVID-19. These forbearance policies were later aligned with the CARES Act.
- On March 23, FHFA announced the Enterprises' policies providing a three-month forbearance option for multifamily property owners that prohibit tenants from being evicted for the non-payment of rent for the duration of the forbearance plan.
- On May 13, FHFA implemented a new loss mitigation alternative, Payment Deferral, that will allow borrowers in COVID-19 forbearances to place missed payments into a non-interest-bearing payment at the end of the mortgage.
- On June 16, FHFA announced newly translated documents to help Limited English Proficiency (LEP) borrowers understand options for borrowers affected by COVID-19. The documents are available in English, Spanish, traditional Chinese, Vietnamese, Korean, and Tagalog.
- On June 29, FHFA announced multifamily forbearances may extend up to a total of six months and that new and modified forbearance agreements must include enhanced tenant protections.
- On August 6, FHFA announced that new or modified forbearances require landlords to inform tenants of their rights under the forbearance agreement.

Providing Resources for Homeowners and Renters

- On April 8, FHFA published the advisory Coronavirus-related Fraud Prevention Tips and Resources[2], which encourages borrowers, renters, and individuals involved in the mortgage industry to be vigilant against fraud related to COVID-19 and identifies relief available through the CARES Act.
- On April 15, FHFA announced, with the Consumer Financial Protection Bureau (CFPB), a new Borrower Protection Program that allows the agencies to share information and work together to protect borrowers.
- On April 27, FHFA reminded servicers that borrowers in forbearance with an Enterprise-backed mortgage will not be required to repay the missed payments in one lump sum.
- On May 4, at FHFA's direction, the Enterprises published online multifamily property-lookup tools that enable tenants to determine whether the multifamily property where they reside has an Enterprise-backed mortgage and was eligible for the CARES Act 120-day eviction moratorium.
- On May 12, FHFA launched an interagency website with CFPB and the Department of Housing and Urban Development (HUD) (www.cfpb.gov/housing) to provide critical information about mortgage and housing assistance available for borrowers affected by COVID-19.

[2] https://www.fhfa.gov/Homeownersbuyer/MortgageAssistance/Pages/Coronavirus-Fraud-Prevention.aspx.

Supporting Mortgage Originators and Homebuyers

- On March 23, FHFA directed the Enterprises to streamline the appraisal, employment verification, and loan closing processes to address frictions in the mortgage origination process created by social distancing and stay-at-home orders.

- On May 19, FHFA announced that borrowers in forbearance who continue to make payments are eligible for refinance and new home purchases under certain conditions.

Supporting Market Stability

- On March 23, FHFA authorized the Enterprises to enter into dollar roll transactions, which provide liquidity to investors in mortgage-backed securities (MBS).

- On April 21, FHFA announced a four-month limit on servicer advance obligations for loans in forbearance and a requirement that loans in COVID-19 forbearance remain in MBS pools for the duration of the forbearance plan.

- On April 22, FHFA allowed the Enterprises to purchase certain single-family mortgages that enter forbearance between closing and delivery. Purchase of these previously ineligible loans helps provide liquidity to mortgage markets and allows originators to continue lending.

- On July 31, FHFA announced it would share aggregated data on these loans with CFPB. This ensures loans sold to the Enterprises comply with the intent of the ability to repay provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

Supporting Paycheck Protection Program (PPP) Participants

- On April 23, FHFA allowed FHLBanks to accept PPP loans as collateral for advances to FHLBank members.

- On May 11, FHFA approved the FHLBanks to count PPP-eligible entities as targeted beneficiaries for Community Investment Cash Advance (CICA) funding.

About the Federal Housing Finance Agency

FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA), amending the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act). The Agency is responsible for the effective supervision, regulation, and housing mission oversight of the Enterprises, Common Securitization Solutions, LLC (CSS), and the Federal Home Loan Bank System – which includes 11 Federal Home Loan Banks (FHLBanks) and the Office of Finance (OF), a joint office of the FHLBanks. FHFA's mission is to ensure that Fannie Mae, Freddie Mac, and the FHLBanks, (together, the regulated entities[3]) operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment through the economic cycle. Since September 6, 2008, FHFA has also served as conservator of the Enterprises.

Regulator

The Safety and Soundness Act, as amended by HERA, assigns to FHFA regulatory oversight of the Enterprises and the FHLBank System.[4] The statute vests FHFA with the authorities, similar to those of other prudential financial regulators, to maintain the financial health of the regulated entities. FHFA is responsible for supervising the business and operations of the regulated entities to ensure that they are safe and sound and aligned with the missions set forth in their authorizing statutes. FHFA exercises these regulatory and supervisory authorities by issuing rules, policy guidance documents, and regulatory orders.

The Safety and Soundness Act requires FHFA to fulfill two principal duties:

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

(B) to ensure that

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

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

iii. each regulated entity complies with the Safety and Soundness Act and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;

iv. each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with the Safety and Soundness Act and the authorizing statues; and

v. the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest.[5]

Conservator

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

(D) …take such action as may be—

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

ii. appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.[6]

Continuing the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S. Code (U.S.C.) § 4513(a)(1).

Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages,

[3] The Office of Finance is not a "regulated entity" as the term is defined by statute (see 12 U.S.C. 4502(20)). However, for convenience, references to the "regulated entities" in this report should be read to also apply to the Office of Finance unless otherwise noted.

[4] 12 U.S.C. § 4513.

[5] 12 U.S.C. § 4513(a)(1).

[6] 12 U.S.C. § 4617(b)(2)(D).

and considering net present value to the taxpayer, to take advantage of… available programs to minimize foreclosures."[7]

Background on the Regulated Entities

The Enterprises

Fannie Mae and Freddie Mac were created by Congress in 1938 and 1970, respectively, to provide stability and liquidity in the secondary market for residential mortgages. The Enterprises acquire mortgages that lenders have already made to borrowers. As shown in Figure 1, most single-family mortgages are pooled into MBS, which are guaranteed by the Enterprises and then sold to investors. The Enterprises guarantee the payment of principal and interest on the underlying mortgages and charge lenders a guarantee fee for assuming the credit risk associated with the purchased mortgages. The Enterprises also separately purchase multifamily mortgages. Since 2008, the Enterprises have operated in conservatorships.

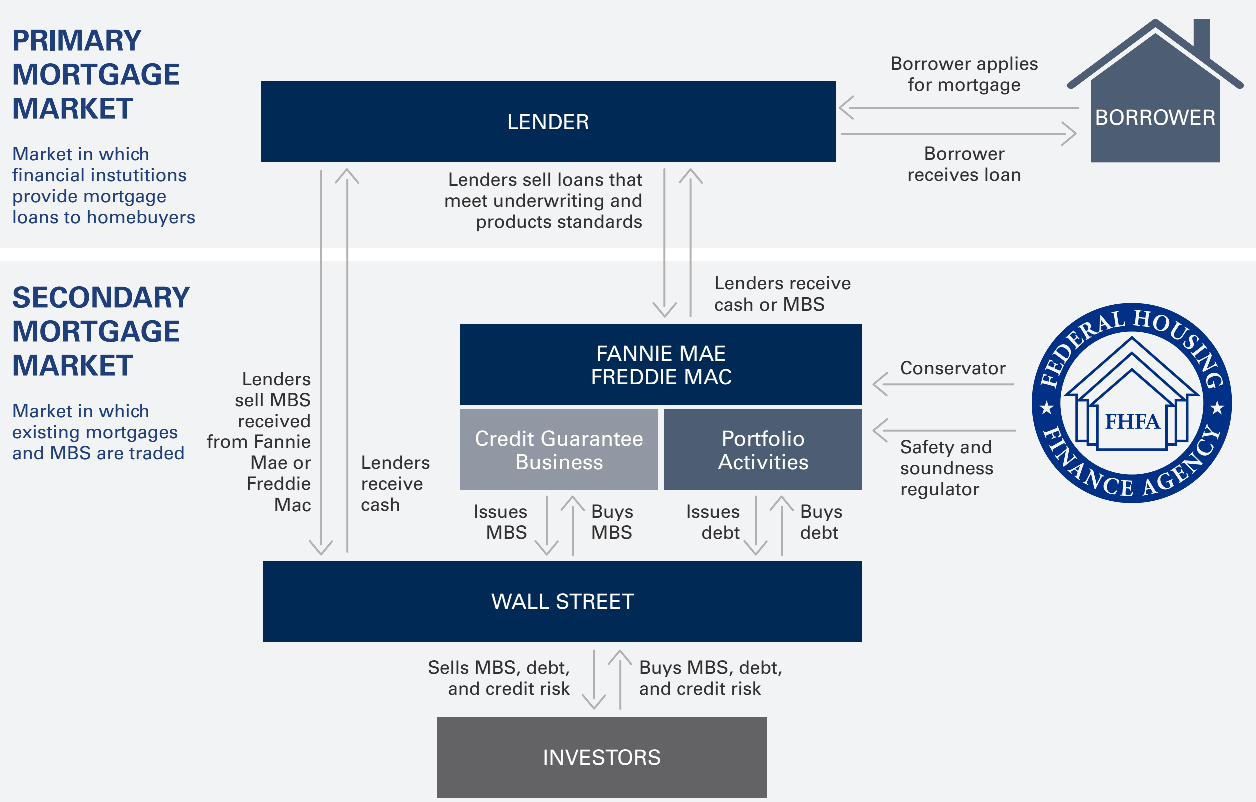
Table 1 illustrates the scope of the regulated entities' involvement in the housing market for Calendar Year (CY) 2019 and CY 2020 through the third quarter.

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

		Jan – Dec 2019	Jan – Sep 2020
Enterprise New Business	Single-Family Purchase	$562	$502
	Single-Family Refinance	$487	$1,138
	Multifamily	$149	$97
	TOTAL	$1,198[a]	$1,737[a]
FHLBank New Business[b]	On-Balance Sheet Acquired Member Assets (AMA) Mortgages	$22	$15
	Off-Balance Sheet Mortgages	$3	$10
FHLBank AMA Mortgages Outstanding[c]		$73	$68
FHLBank Advances Outstanding[c]		$642	$479

[a] Publicly available 10-K and 10-Q financial reports submitted by public companies to the U.S. Securities and Exchange Commission and Credit Supplement Reports.
[b] Under AMA programs, the FHLBanks acquire conforming and government guaranteed or insured loans. AMA mortgages are mortgages purchased by the FHLBanks generally as investments to hold on their books. Off-balance sheet mortgages are mortgages that the FHLBanks pass through directly to third-party investors or securitization.
[c] As of end of period.

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



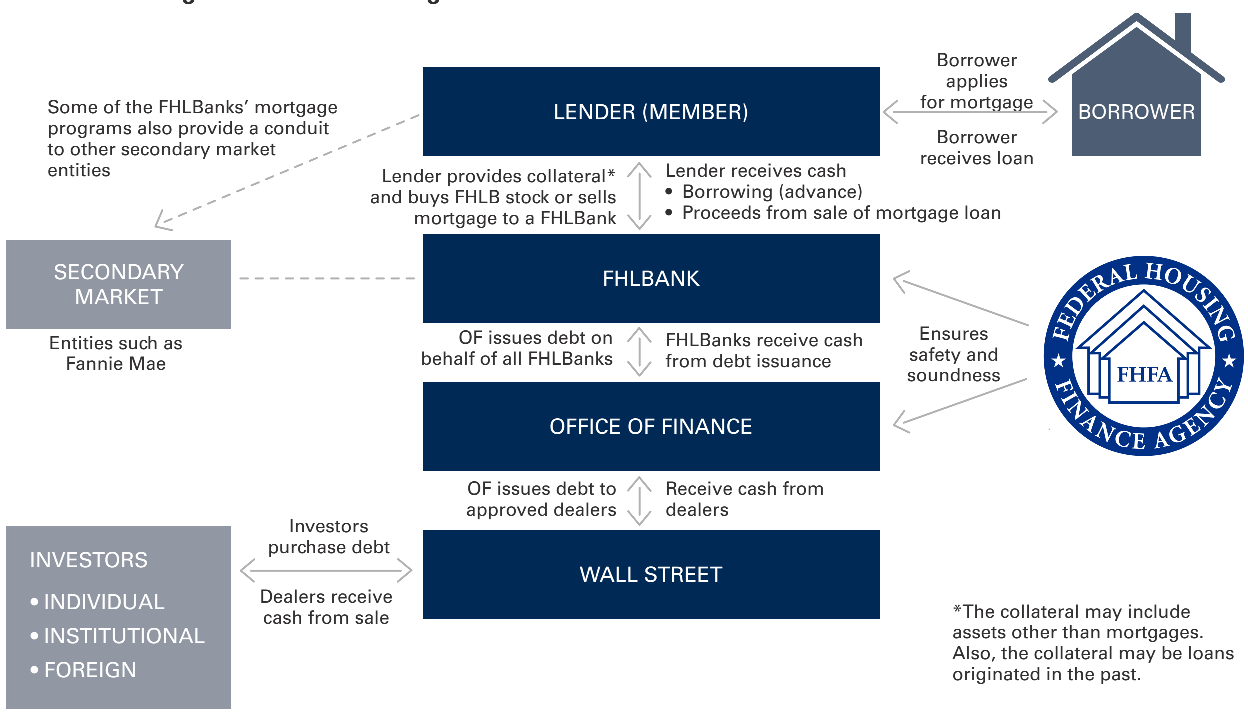
[7] 12 U.S.C. § 5220(b)(1).

The Federal Home Loan Banks

Congress passed the Federal Home Loan Bank Act (Bank Act) in 1932 to establish the FHLBank System and reinvigorate a housing market devastated by the Great Depression. The FHLBank System includes 11 district FHLBanks, each serving a designated geographic area of the United States, and OF, which issues consolidated obligations[8] to fund the FHLBanks' operations. The FHLBanks are private member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making loans, known as advances, to member institutions and housing associates (see Figure 2). These advances increase the available funding for residential mortgages. The FHLBanks secure these advances with eligible collateral, consisting primarily of single-family mortgages, multifamily mortgages, government and agency securities, and commercial real estate loans. Some FHLBanks also purchase mortgage loans directly from their members through On-Balance Sheet Acquired Member Assets (AMA) programs.

As of September 30, 2020, there were 6,661 active FHLBank members, consisting of commercial banks, credit unions, thrifts, insurance companies, and community development financial institutions.

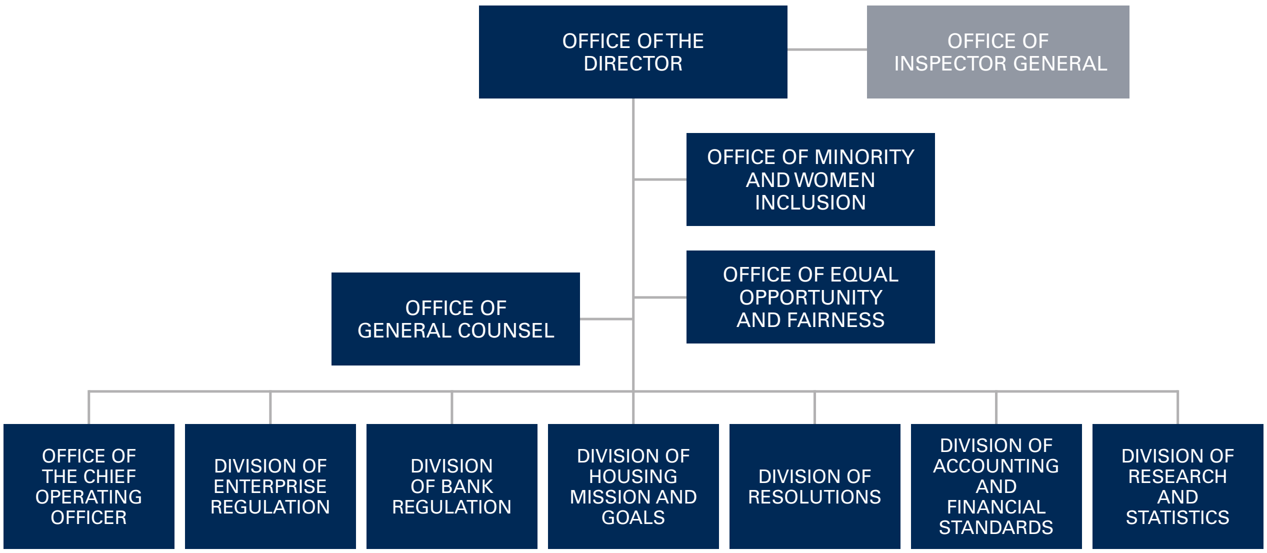
Figure 2: FHFA's Oversight Role – Federal Home Loan Banks and Office of Finance



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

FHFA Organization

Figure 3: FHFA Principal Organization Structure



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, housing, insurance, technology, accounting, and legal matters.

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

The Office of the Director (OD) provides overall leadership and strategic direction for the Agency. The Office of Congressional and Agency Communications resides in the Office of the Director and is responsible for all external and internal communications.

The Office of the Chief Operating Officer (OCOO) oversees the Agency's day-to-day support operations, including facilities management, continuity of operations (COOP), financial planning and budgeting, contracting, human resource management, information technology, quality assurance, program management, and audit follow-up functions. The office also leads Agency strategic planning and performance management and reporting efforts.

The Division of Enterprise Regulation (DER) supervises the Enterprises and evaluates the safety and soundness of their operations. DER contributes to the achievement of FHFA's strategic and performance goals through planning and executing risk-based examinations of the Enterprises with continuous onsite supervision of enterprise risk management, developing and preparing the annual reports of examination (ROEs), issuing guidance to the regulated entities and examiners, providing examiner training, and providing risk analysis.

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

The Division of Housing Mission and Goals (DHMG) develops and analyzes FHFA's housing and capital policy. The division administers housing and regulatory policy, the mission and goals of the Enterprises, and the housing finance, community, and economic development mission of the FHLBanks. The division is also responsible for conservator and supervisory fair lending oversight. DHMG oversees and coordinates FHFA activities affecting housing finance and financial markets in support of FHFA's mission and the Director's responsibilities as a member of the Federal Housing Finance Oversight Board, the Financial Stability Oversight Board, and the Financial Stability Oversight Council.

The Division of Resolutions (DOR) assists the FHFA Director, as conservator, in carrying out conservatorship obligations. DOR facilitates communications between the Enterprises and FHFA as conservator to ensure the prompt identification of emerging issues and their timely resolution. DOR also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorships. In addition, the division leads, coordinates, and clarifies Agency and Enterprise activities related to the Agency's strategic plan for managing those conservatorships. In October 2019, FHFA issued *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*,[9] which guides management of the conservatorships. DOR is also responsible for ensuring that FHFA can address troubled entities in a safe, efficient, and stabilizing manner, particularly if an economic downturn emerges. This includes developing living wills and other contingency plans for resolving FHFA-regulated entities in the event of distress and failure, among other resolution responsibilities.

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

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

The Division of Research and Statistics (DRS) serves as a policy, research, and data service center to the Director and other divisions and offices. The division also enhances the Agency's ability to engage and inform a diverse set of stakeholders outside of the Agency. By developing knowledge about the markets in which FHFA's regulated entities function and the attendant risks, the division contributes economic expertise as well as new data resources and analyses to policy, regulatory, and supervisory decision-making; develops new modeling capabilities; and evaluates policy impacts. As an outgrowth of these activities, the division works to encourage collaboration across the Agency, increasing the impact of the Agency's collective knowledge and expertise. The staff also works with other government researchers and data experts; engages in public policy, academic and industry conferences and meetings; and disseminates statistical products and research to the public.

The Office of Minority and Women Inclusion (OMWI) leads the Agency's efforts to advance diversity and inclusion (D&I) among its workforce and senior-level management. OMWI is responsible for increasing the participation of minority- and women-owned businesses in Agency programs and contracts, including standards for coordinating technical assistance to such businesses, assessing the diversity policies and practices of the regulated entities, and evaluating the good faith efforts of Agency contractors and subcontractors. OMWI also oversees and directs all Enterprise and FHLBank D&I examination activities, develops examination findings, and prepares D&I conclusion memoranda that are incorporated into the annual ROEs for the Enterprises and the FHLBanks and OF. OMWI monitors and assesses the D&I performance of the Enterprises, FHLBanks, OF, and CSS, and tests their compliance with laws and regulations. OMWI conducts annual onsite examinations, periodic visits, and offsite monitoring and analysis of the FHLBanks, OF, and CSS; OMWI conducts continuous onsite supervision of the Enterprises.

The Office of Equal Opportunity and Fairness (OEOF) houses FHFA's Equal Employment Opportunity (EEO), anti-harassment, and alternative dispute resolution functions. The office partners with FHFA leadership and the workforce to ensure an equitable and civil workplace, grounded in the dignity and respect of all employees. Interpreting the Equal Employment Opportunity Commission's regulations, the office advocates for a model EEO program, while remaining proactively neutral and impartial in the administration of the federal EEO Complaints Process and the Harassment Prevention

[9] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2019-Strategic-Plan.pdf.

Program, protecting the rights of all the parties involved in these processes. The office educates the workforce on their rights and responsibilities under the civil rights laws. Using rigorous data analyses, the office identifies and examines obstacles in the employment life cycle to enable potential employees and FHFA employees to navigate the application process and their careers in an equitable and just manner. The office develops tools, methodologies, and education options to inform the workforce about how to address workplace conflict, employing various modalities of alternative dispute resolution. OEOF's work is grounded in the fundamental FHFA value of fairness for all Agency employees. The office also ensures that FHFA is compliant with EEO laws and regulations.

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

The Agency ended the fiscal year with 635 employees on board. OIG ended the fiscal year with 121 employees on board (see Table 2).

Table 2: FHFA Staffing Summary

FHFA Employees (by specialized area)	As of 9/30/2020	
	FY 2020 Year End[a]	FY 2021 Budgeted[b]
Office of the Director	35	39
Office of the Chief Operating Officer	124	133
Division of Enterprise Regulation	135	181
Division of Federal Home Loan Bank Regulation	113	123
Division of Housing Mission and Goals	100	113
Division of Resolutions	18	22
Division of Accounting and Financial Standards	24	28
Division of Research and Statistics	34	40
Office of General Counsel	38	43
Office of Minority and Women Inclusion	11	21
Office of Equal Opportunity and Fairness	3	5
TOTAL FHFA	635	748
TOTAL FHFA OIG	121	155

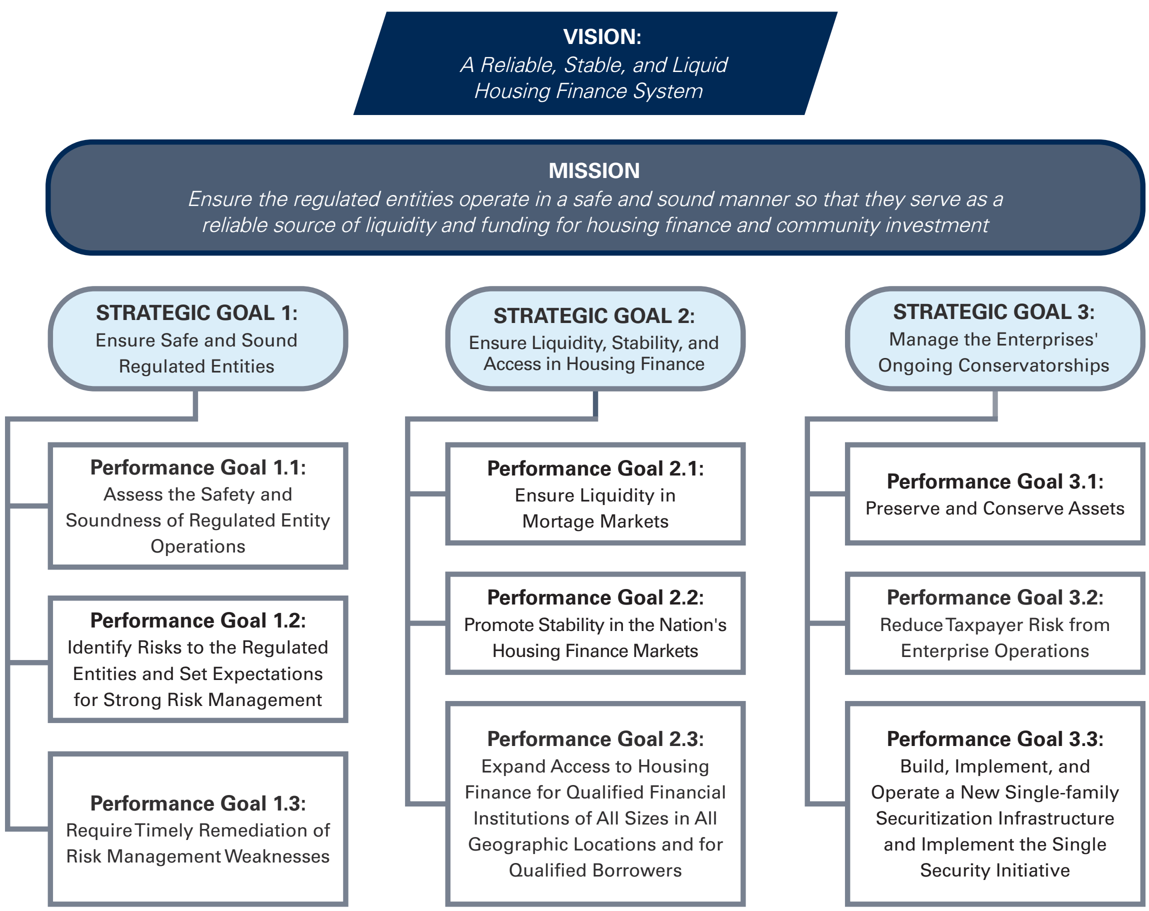
[a] FY 2020 staffing numbers are on-board positions as of September 30, 2020.
[b] FY 2021 staffing numbers are budgeted positions.

Performance Summary

Strategic and Performance Goals

FHFA’s Strategic Plan provides the foundation for Agency planning, budgeting, operations, and reporting. The Agency’s Strategic Plan establishes the long-term strategic goals to achieve FHFA’s mission and the performance goals to achieve those strategic goals. It also identifies planned means and strategies to achieve the performance goals. Key elements from FHFA’s 2018-2022 Strategic Plan[10] are presented in Figure 4, including the Agency’s vision and mission, as well as the three strategic goals and their corresponding performance goals that were in effect during FY 2020, the time period covered by this report. (An additional resource management element, not shown here, is identified in the Annual Performance Plan (APP) for FY 2019[11] and contributes to achievement of all three strategic goals.) The performance measures associated with the performance and resource management goals are presented on pages 34-56. Validation and verification activities, conducted to confirm that performance results are reported accurately, are described on page 33.

Figure 4: FHFA'S FY 2018-2022 Strategic Plan: Vision, Mission, and Goals



[10] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/StratPlan_Final_1292018.pdf. FHFA has published the Strategic Plan for FY 2021-2024 at https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2021-2024_Final.pdf.

[11] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FY2019_APP.pdf. For FY 2020, FHFA did not publish an APP. Instead the Agency continued with 2019 measures and targets while it worked to develop a new strategic plan.

Performance Snapshot

For FY 2020, FHFA identified a total of 22 performance measures and associated targets[12] to monitor progress toward achieving the Agency's strategic goals, performance goals, and selected aspects of resource management. Of the 22 performance measures in FY 2020, FHFA met the targets for 16 (73 percent), did not meet the targets for 5 (23 percent), and lacked the data to assess performance for measure RM5.[13] Data for RM5 will be available in CY 2021. The overall results indicate progress toward achieving FHFA's goals and mission.

FHFA'S STRATEGIC PLAN: FISCAL YEARS 2021-2024

In October 2020, after requesting public input in accordance with the Government Performance and Results Modernization Act of 2010, FHFA published its new Strategic Plan for fiscal years 2021-2024.[a] The Strategic Plan serves as a blueprint for the Agency's long-term objectives and reflects FHFA's priorities as regulator of the FHLBank System and as regulator and conservator of the Enterprises. In addition, the Strategic Plan provides the public information about FHFA's operations and sets the foundation for the Agency's APP and the Performance and Accountability Report (PAR).

FHFA's new Strategic Plan sets forth three goals for the Agency: 1) Ensure safe and sound regulated entities through world-class supervision; 2) Foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets; and 3) Position the Agency as a model of operational excellence by strengthening the workforce and infrastructure.

[a] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2021-2024_Final.pdf

Summary of Performance Measures and Results

Table 3 presents a summary of results for FHFA's FY 2020. More information on FHFA's performance organized by strategic goal can be found in the Performance Section, starting on page 31.

Table 3: Summary of Performance Measures and Results

Performance Measure	FY 2020 Target	FY 2020 Result
STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITIES		
Performance Goal 1.1: Assess the safety and soundness of regulated entity operations		
1.1.1: Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and by January 31 for the Enterprises	100 percent of the time	NOT MET[14]
1.1.2: Approve reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity-to-par ratio greater than or equal to one for each FHLBank	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	100 percent of the time	MET
1.1.5: Ensure that supervisory correspondence to the Enterprises is reviewed for adherence to division guidance	100 percent of the time	MET

[12] These are ongoing measures that were carried forward from the FY 2019 Annual Performance Plan.

[13] Measure RM5 - Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals."

[14] 1.1.1 -The written risk-based examination priorities and examination plans for the Enterprises were approved and in place by January 31, 2020; however, a separate written supervisory strategy was not prepared. The target was met for the FHLBanks.

Table 3: Summary of Performance Measures and Results		
Performance Measure	**FY 2020 Target**	**FY 2020 Result**
Performance Goal 1.2: Identify risks to the regulated entities and set expectations for strong risk management[15]		
Performance Goal 1.3: Require timely remediation of risk management weaknesses		
1.3.1: Determine that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	90 percent of the time	**MET**
STRATEGIC GOAL 2: ENSURE LIQUIDITY, STABILITY, AND ACCESS IN HOUSING FINANCE		
Performance Goal 2.1: Ensure liquidity in mortgage markets		
2.1.1: Issue a final Capital Regulation for the Enterprises	FY 2020	**NOT MET**[16]
Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets		
2.2.1: Publish 12 monthly and 4 quarterly FHFA House Price Indices	FY 2020	**MET**
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers		
2.3.1: Conduct diversity and inclusion examinations of the regulated entities	10 examinations during FY 2020	**MET**
STRATEGIC GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS		
Performance Goal 3.1: Preserve and conserve assets		
3.1.1: Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives	95 percent of vacancies filled within 120 days	**MET**
3.1.2: Provide the Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises for Calendar Year 2020	December 31, 2019	**MET**
3.1.3: Communicate conservator decisions to the Enterprises' on their administrative expenses for Calendar Year 2020	January 31, 2020	**MET**
3.1.4: Assess the Enterprises' performance against current Scorecard objectives	Complete quarterly assessment within 30 days of the end of each quarter	**NOT MET**[17]
3.1.5: Provide timely responses on items submitted to FHFA for conservator decision	95 percent of conservatorship decisions requiring Agency approval made and communicated within 90 days of receipt	**NOT MET**[18]
Performance Goal 3.1: Reduce taxpayer risk from Enterprise operations		
3.2.1: Oversee the retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target	Retained portfolio balances were below the requirement of $250 billion at each Enterprise	**MET**
3.2.2: Require the Enterprises to execute single-family mortgage credit risk-sharing transactions	Transfer a meaningful portion of credit risk on at least 90 percent of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for credit risk transfer, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	**MET**
3.2.3: Require the Enterprises to execute multifamily mortgage credit risk-sharing transactions	Transfer a meaningful portion of the credit risk on newly acquired multifamily mortgages, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	**MET**

[15] Performance Goal 1.2 – For FY 2020, FHFA did not have a performance measure/target to report for Performance Goal 1.2. Performance measure 1.2.1 (Issue guidance to the FHLBanks and Enterprises on operational risk management) was met in FY 2019.

[16] 2.1.1 – On May 20, 2020, FHFA announced that it was seeking comments on a notice of proposed rulemaking that establishes a new regulatory capital framework for the Enterprises. A re-proposal of the notice of proposed rulemaking published in July 2018, the proposed rule was published in the Federal Register on June 30, 2020. The comment period for the proposed rule ended on August 31, 2020. To ensure that all comments receive a thorough review and are carefully considered, FHFA will finalize the regulatory capital framework for the Enterprises in early FY 2021.

[17] 3.1.4 – FHFA did not meet this measure in the first quarter of 2020. FHFA rescheduled the Freddie Mac quarterly assessment at the request of Freddie Mac management, and the rescheduled meeting occurred on January 31, which was one day beyond the target. However, FHFA met the targets for this measure in the final three quarters of 2020.

[18] 3.1.5 – In FYs 2017 and 2018, the performance target for Measure 3.1.5 included a more generous time frame of 120 days for conservatorship decisions to be made. All submissions for the third quarter and 92.6 percent of submissions for the fourth quarter closed within 90 days, but that performance was not sufficient to offset performance in the first and second quarters.

Table 3: Summary of Performance Measures and Results		
Performance Measure	**FY 2020 Target**	**FY 2020 Result**
RESOURCE MANAGEMENT: SUPPORTING THE EFFECTIVE OPERATIONS OF THE AGENCY		
RM1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses[19]	100 percent of the time	**MET**
RM2: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	100 percent of the time	**MET**
RM3: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	99.5 percent of the time	**MET**
RM4: Increase the dollar amount of FHFA contracts awarded to minority- and women- owned businesses consistent with legal standards	Total dollar amount of contracts greater than the five-year average	**NOT MET**[20]
RM5: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"	Positive responses equal to or higher than both the small agency and government-wide averages	**DATA NOT AVAILABLE**[21]

Notable Accomplishments by Strategic Goal

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

FHFA's Strategic Goal 1 is to ensure that the Enterprises and the FHLBanks operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. FHFA promotes the safe and sound operation of the regulated entities through the Agency's supervisory program. FHFA employs a risk-based approach to supervisory examinations that involves identifying existing and emerging risks, evaluating the overall integrity and effectiveness of the entities' risk management systems and controls, and assessing compliance with applicable laws and regulations.

During FY 2020, FHFA used six performance measures and associated targets to monitor progress toward Strategic Goal 1. FHFA met the targets for five of the measures and did not meet the target for one measure. A detailed discussion of performance results for Strategic Goal 1 is included in the Performance Section.

Strategic Goal 1 – Notable Accomplishments

1. FHFA Issues Liquidity Directive to the Enterprises

In June 2020, FHFA directed the Enterprises to meet four new liquidity requirements with a compliance date of December 1, 2020. These requirements set the minimum amount (and type) of liquidity that an Enterprise must hold to meet its debts when they come due, helping ensure each Enterprise is able to meet its obligations in the event of funding markets stress.

2. FHFA Increases Enterprise Targeted Exams

For the 2020 examination cycle, DER planned a combined 121 percent increase in the number of Enterprise-targeted examinations compared to the 2019 examination cycle.

3. FHFA Addresses Enterprise High-Risk Loans

In 2019, at FHFA's direction, the Enterprises began to take measured steps to address high-risk loans. A borrower's likelihood of default is positively correlated with their number of risk factors, particularly high-risk factors such as high loan to value, low credit score, and high DTI ratios. If a borrower has just one high-risk factor, there may be ways to offset it with other compensating factors. But the chance of default is driven up when the same borrower has more than one such risk layered on top of the other. Post-crisis, the proportion of layered-risk loans purchased by the Enterprises was low, but the rate began increasing in 2017. To address this risk, FHFA has worked with the Enterprises to reduce loan acquisitions with multiple risk factors. These measured changes did not have a material impact on the availability of mortgage credit in the single-family market.

[19] Prior to FY 2019, RM1 and RM2 were reported as a combined measure.

[20] The Agency was unable to meet its goal because of the severe constraints created by the closure of the FHFA offices due to the COVID-19 pandemic in the second quarter of FY 2020.

[21] Prior to 2018, the Federal Employee Viewpoint Survey question was framed as "the [Agency] workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals." Due to COVID-19, FHFA will receive the 2020 data in CY 2021.

SUPERVISION OF THE REGULATED ENTITITES

FHFA's supervisory program is designed to promote the safe and sound operation of the regulated entities. FHFA employs a risk-based approach to supervisory examinations that involves identifying existing and emerging risks, evaluating the overall integrity and effectiveness of the entities' risk management systems and controls, and assessing compliance with applicable laws and regulations.

Examinations – In FY 2020, FHFA conducted examinations of the Enterprises and the FHLBanks.[a] An Examiner-in-Charge led examination activity at each Enterprise and FHLBank. Teams of examiners, in coordination with other subject matter experts, conducted the examination activities. FHFA also maintained offsite monitoring programs that routinely evaluate data, respond to a wide array of ad hoc and periodic requests, and provide support to examination teams.

Enterprises: In FY 2020, through its supervisory program, FHFA conducted continuous onsite (until the pandemic and then offsite) examinations of the Enterprises' risk management and offsite review and monitoring of Fannie Mae, Freddie Mac, and CSS, the joint venture of the Enterprises that owns and operates the Common Securitization Platform (CSP). (For more information on CSS and the CSP, see page 48.) As in previous years, FHFA conducted examinations in accordance with risk-based examination plans. FHFA maintains onsite (now offsite due to the pandemic) examination teams at each Enterprise to conduct targeted examinations and ongoing monitoring throughout the year across various areas of risk. FHFA also conducted D&I examinations of the Enterprises' D&I programs, led by an OMWI Supervisory Examination Specialist. The D&I examination conclusions were incorporated into the ROE for each Enterprise.

FHLBanks: During FY 2020, FHFA maintained its schedule of annual examinations at each FHLBank and OF (onsite until the pandemic, then offsite), conducted risk analyses, and performed offsite and onsite reviews and monitoring. Examinations and ongoing supervision adhere to annually established supervisory strategies and examination plans for each FHLBank and OF. FHFA also conducted D&I examinations of the FHLBanks' and OF's D&I programs. The D&I examination conclusions are incorporated into the ROE for each FHLBank and OF.

ROEs – For each regulated entity, FHFA prepares an annual ROE[b] that identifies weaknesses and includes composite and component ratings as set forth in the Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk (CAMELSO) rating system.[c] The FHFA examination rating system is a risk-focused rating system under which each of the regulated entities and OF is assigned a composite rating based on an evaluation of various aspects of its operations. The composite rating for OF is based primarily on an evaluation of two components: Management and Operational risk. The composite rating is not an arithmetic average of the component ratings. Instead, the relative importance of each component is determined on a case-by-case basis, within the parameters established by this rating system. Component ratings may be influenced, augmented, or counterbalanced by other component ratings. For FY 2020, FHFA delivered ROEs to the Enterprises in March 2020 and to the FHLBanks according to FHFA's examination schedule.[d] Each regulated entity's ROE is delivered to its board of directors and management.

Supervisory Expectations – FHFA communicates supervisory expectations for strong risk management and requires remediation of identified deficiencies. In the event of significant supervisory concerns or violations of law or regulation at one of the regulated entities, FHFA issues Matters Requiring Attention (MRAs), which are examination findings that require the board of directors and/or management to take corrective action to address critical supervisory matters or deficiencies.[e] In response to an MRA, the entity commits to remediating the concerns. FHFA also issues written guidance in the form of advisory bulletins (ABs) to the regulated entities regarding particular supervisory topics, as discussed in greater detail on pages 39-40.

[a] Section 1317(a) of the Safety and Soundness Act, as amended, 12 USC § 4517(a), requires FHFA to conduct annual onsite examinations of the Enterprises and the FHLBanks. Examination of the FHLBanks is also performed pursuant to Section 20 of the Bank Act, as amended, 12 U.S.C. § 1440.

[b] FHFA prepares ROEs under the authority given to the Agency in Section 1317(a) of the Safety and Soundness Act (12 U.S.C. § 4517(a)).

[c] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/AB-2012-03-FHFA-EXAMINATION-RATING-SYSTEM.aspx.

[d] FHFA generally conducts three FHLBank System examinations per quarter.

[e] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Classifications-of-Adverse-Examination-Findings.aspx.

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

In its supervision of the Enterprises and the FHLBanks, FHFA has the statutory obligation to foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets, while ensuring that the regulated entities operate in a safe and sound manner and fulfill their statutory missions. FHFA uses a multi-faceted approach to achieve these objectives. FHFA works with the Enterprises to implement risk measurement and risk management guidelines to promote liquidity and stability in the housing finance markets. FHFA monitors and reports on trends in housing and mortgage markets, such as trends in house prices, guarantee fees, and consumer sentiment. Monitoring and reporting data help the Agency to respond appropriately to developments in the housing finance market and to promote market stability. In addition, FHFA works with the Enterprises to develop and monitor programs that expand access to housing finance to all qualified financial institutions and qualified borrowers. FHFA also oversees the FHLBanks' affordable housing and community investment activities.

During FY 2020, FHFA used three performance measures and associated targets to monitor progress toward Strategic Goal 2. FHFA met the targets for two of the measures and did not meet the target for one measure. A detailed discussion of performance results for Strategic Goal 2 is included in the Performance Section.

Strategic Goal 2 – Notable Accomplishments

1. FHFA Releases a Re-proposed Capital Rule for the Enterprises

On May 20, 2020, FHFA released for public comment a notice of proposed rulemaking that establishes a new regulatory capital framework for the Enterprises. A critical step toward responsibly ending the conservatorships, the proposed rule was a re-proposal of the notice of proposed rulemaking published in July 2018. Building on the mortgage risk-sensitive framework of the 2018 proposal, the re-proposed rule increases the quantity and quality of the Enterprises' regulatory capital, providing a stronger foundation on which to weather crisis, and reduces the pro-cyclicality of the aggregate capital requirements. With these enhancements, the re-proposal establishes a post-conservatorship regulatory capital framework that ensures that each Enterprise operates in a safe and sound manner and is positioned to fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market across the economic cycle, in particular during periods of financial stress. The public comment period ended on August 31, 2020, and FHFA expects to finalize the rule in early FY 2021. By ensuring each Enterprise's safety and soundness and ability to fulfill its statutory mission across the economic cycle, in particular during periods of financial stress, this rule will help build a strong, resilient housing finance system that supports sustainable homeownership and affordable rental housing.

2. FHFA Announces Enterprise Update on LIBOR Transition

In February 2020, FHFA announced steps the Enterprises are taking to transition away from the London Interbank Offered Rate (LIBOR). These include requiring new language for single-family adjustable rate mortgages (ARMs) and setting end dates for the eligibility and acquisition of LIBOR-based ARMs. FHFA's Reference Rate Steering Committee is leading the working group comprised of Agency and Enterprise employees that will ensure that the transition away from LIBOR at the end of 2020 is carried out in a safe and sound manner. The Enterprises serve as members of the Alternative Reference Rates Committee, which was established by the Federal Reserve Board and the Federal Reserve Bank of New York to facilitate the migration from LIBOR to the Secured Overnight Financing Rate (SOFR).

3. FHFA's House Price Index (HPI) Selected to Represent U.S. Housing Market

In July 2020, the FHFA HPI® attained global reach. The Organization for Economic Co-operation and Development (OECD) chose the FHFA HPI to represent the United States housing market. FHFA's DRS helped the OECD understand how the FHFA HPI's repeat sales tracking controls for home quality in more than 400 markets and all 50 states. OECD emphasized the importance of regional variations in a nation's house prices. Real estate has been estimated to be worth twice total global Gross Domestic Product. Now FHFA's HPI will help OECD and other international researchers measure regional residential property values and track the trajectory of the global "urban resurgence." The FHFA HPI also received two federally registered trademarks in recognition of its industry-wide usage and distinction.

FHFA EMBARGO – HPI RELEASE:

FHFA is the premier source for the most comprehensive and accurate data regarding housing and mortgage financial information. The Agency releases a key market report, the FHFA HPI®, on a monthly basis. The FHFA HPI is a broad measure of the movement of single-family house prices. The FHFA HPI is a weighted, repeat-sales index, measuring average price changes in repeat sales or refinancings on the same properties. The FHFA HPI serves as a timely, accurate indicator of house price trends at various geographic levels. To disseminate this information, FHFA created a new secure site, FHFA Embargo, which allows members of the media early access to the HPI monthly report. This allows members of the media to prepare their articles and social media announcements to coincide with the release of the HPI report and data to the general public on the FHFA public website.

4. FHFA Hosts Economic Summits on Housing Affordability and Natural Disaster Risk

During FY 2020, FHFA hosted two Economic Summits. In January 2020, speakers from FHFA, the Enterprises, and the Federal Reserve system presented research on housing affordability and household mobility to an audience of about 85 government, industry, and academic participants. Director Calabria welcomed the group with opening remarks emphasizing the importance of research and data-driven analytics in shaping the housing industry. In August 2020, speakers from FHFA, the Enterprises, and other academic organizations discussed issues related to natural disaster risk and early observations from the COVID-19 pandemic. The second summit took place in a virtual setting with more than 150 attendees. Director Calabria's remarks again emphasized the important role of research-backed policy decisions, especially in times of financial market stress. Presenters and panelists discussed how biases play a role in preparing for natural disasters and pandemics, how flood risk perceptions materially affect house prices, and how social vulnerability indices could be used to help tailor mitigation efforts by identifying locations with a high risk of flood exposure and a high share of vulnerable populations.

5. FHFA Implements Separate System to Monitor Diversity and Inclusion at Regulated Entities

In September 2020, the Director approved the implementation of a separate system to rate the regulated entities' D&I programs and issue ROEs separate and apart from the safety and soundness ROEs. This is a significant step that is unique to FHFA. This new approach further cements the Agency's leadership in promoting D&I at FHFA and its regulated entities. The new system's benefits include:

- A D&I ROE will more clearly present FHFA's assessment of the regulated entities' D&I program performance than the narratives currently included in the annual ROE.
- First-of-its-kind D&I data analysis will provide increased visibility into the execution, performance, and sustainability of our regulated entities' D&I programs.
- A D&I composite rating will bring transparency and concrete assessments of the regulated entities' overall D&I performance.

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

Since 2008, FHFA has served as conservator of the Enterprises. Strategic Goal 3 focuses on managing the Enterprises' conservatorships to preserve and conserve the assets of the Enterprises, reduce taxpayer risk from Enterprise operations, and support the development, implementation, and operation of a single-family securitization infrastructure for the Enterprises.

During FY 2020, FHFA used eight performance measures and associated targets to monitor progress toward Strategic Goal 3. FHFA met the targets for six of the measures and did not meet the targets for two of the measures. A detailed discussion of performance results for Strategic Goal 3 is included in the Performance Section.

Strategic Goal 3 – Notable Accomplishments

1. FHFA Plans for Responsible End of Conservatorships

FHFA has achieved a number of significant milestones on the path to responsibly ending the conservatorships of the Enterprises. In October 2019, FHFA released a new Strategic Plan for the conservatorships of the Enterprises and a new Scorecard for the Enterprises[22] and CSS.[23] The Strategic Plan provides a framework for how FHFA will

[22] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2019-Strategic-Plan.pdf.

[23] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2020-Scorecard-10282019.pdf.

guide the Enterprises to fulfill their statutory missions, focus on safety and soundness, and prepare for a responsible end to the conservatorships. The Scorecard aligns the Strategic Plan with the Enterprises' tactical priorities and operations, including requirements for preparing for their transition out of conservatorship. Those requirements include, among others, the development of roadmaps with milestones for exiting conservatorship, coordination and alignment with the Department of the Treasury (Treasury) and HUD Housing Finance Reform Plans,[24] addressing areas identified by FHFA or internal auditors as needing improvement, and developing a post-conservatorship strategy and governance framework for CSS and the CSP.

2. FHFA Hires Financial Advisor and Legal Advisor to Develop a Roadmap to End Conservatorships

In February 2020, FHFA announced the retention of a financial advisor to assist in the development and implementation of a roadmap to responsibly end the conservatorships of the Enterprises. The development of this roadmap will consider possible business and capital structures, market impacts and timing, and alternatives for raising capital, among other things. In complementary actions, in June 2020, Freddie Mac and Fannie Mae each announced the selection of its own underwriting advisor to aid its preparations to raise capital and responsibly exit conservatorship.

In April 2020, FHFA retained a law firm to develop a legal roadmap for the Enterprises' exit from conservatorship. The firm's tasks are to identify and assess the legal options for recapitalizing the Enterprises and to advise FHFA as it negotiates any amendments to the Preferred Stock Purchase Agreements (PSPAs) with Treasury.

Resource Management: Supporting the Effective Operations of the Agency

FHFA cannot achieve its performance and strategic goals without prudent and effective management of resources to ensure that the right people, funds, security, supplies, physical space, and technology are in place. In addition, achieving FHFA's goals requires communication, collaboration, and coordination by all staff and across all offices and divisions within FHFA.

EMPLOYEE ENGAGEMENT AMBASSADOR PROGRAM

FHFA established an Employee Engagement Committee with engagement ambassadors from each Agency division and office. Moving forward, the committee will facilitate communication between employees and Agency leadership and undertake activities to improve employee satisfaction and engagement. FHFA also recently developed Employee Engagement Action Plans for the entire Agency and for each division and office. To ensure that employee feedback continues to drive the Agency's engagement efforts, FHFA will focus on implementing initiatives recommended in the plans related to cross-Agency collaboration, training and development, employee recognition, embracing diversity, and fostering innovation.

FHFA monitored FY 2020 progress for Resource Management using five performance measures. The Agency met the FY 2020 performance target for three measures and did not meet the performance target for one measure. Data for measure RM5 (Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals) will be available in CY 2021.

Resource Management – Notable Accomplishments

1. FHFA Launches Organizational Optimization Project

In July 2020, FHFA began work on a project to help cement its status as a world-class regulator. A strategic advisory firm is providing organizational assessment expertise, analysis, and consulting services to help optimize the Agency's organizational framework and fulfill its supervisory mission in a post-conservatorship environment. The project has three main parts:

A. Benchmark Study – Examining other financial regulatory entities to determine best-practices relevant to FHFA.

B. Current and Future Workforce Analysis – Assessing FHFA's organizational framework, support infrastructure, human capital, and supervisory capabilities.

C. Blueprint – Developing a clear, detailed, and actionable plan that will enhance FHFA's capabilities.

[24] https://home.treasury.gov/system/files/136/Treasury-Housing-Finance-Reform-Plan.pdf; https://www.hud.gov/sites/dfiles/Main/documents/Housing-Finance-Reform-Plan0919.pdf.

Looking Forward

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

Finalize Capital Rule and Issue Proposed Rule on Capital Planning

In FY 2021, FHFA plans to issue a final rule containing a regulatory capital framework for the Enterprises. FHFA has suspended the Enterprises' capital requirements since the beginning of conservatorship. Despite this suspension, FHFA believes it is appropriate to update the Agency's standards on Enterprise capital requirements to provide transparency to all stakeholders and prepare for a post-conservatorship environment. In addition, while the Enterprises are in conservatorship, FHFA will expect them to use assumptions about capital described in the rule's risk-based capital requirements in pricing and other business decisions.

In addition, FHFA plans to issue a notice of proposed rulemaking for the Enterprise capital planning rule to support sound capital management. The rule would require each Enterprise to develop and maintain a capital plan. The plan would assess the expected uses and sources of capital, by estimating revenue, losses, and capital levels over a defined planning horizon, under both expected and stressful conditions, including scenarios provided by FHFA and at least one scenario developed by the Enterprise.

In the period leading up to the financial crisis, many financial institutions made large capital distributions in the form of stock repurchases and dividends, without considering the possible effects of a prolonged economic downturn. Capital planning is intended to address such practices, building on the supervisory expectation that financial institutions should have processes in place to incorporate forward-looking projections of revenue and losses to monitor and maintain their internal capital adequacy.

Transition Away from LIBOR

LIBOR is an interest rate benchmark widely used in global markets. There are estimated to be more than $200 trillion of financial contracts such as loans, derivatives, bonds and floating rate notes, short- term instruments, and securitizations referencing U.S. dollar LIBOR. Fannie Mae, Freddie Mac, and the FHLBanks all have financial instruments that reference LIBOR. The Financial Conduct Authority, the United Kingdom-based regulator of LIBOR, has been warning market participants since 2017 that it will stop compelling panel banks to submit LIBOR quotes beginning in 2022.

FHFA serves as an ex officio member of the Alternative Reference Rates Committee (ARRC) established by the Federal Reserve Board and the New York Federal Reserve Bank to facilitate the migration away from LIBOR. FHFA is working with its regulated entities as they monitor exposure to LIBOR and develop transition plans to lower their exposure in a safe and sound manner.

The SOFR is an alternative rate proposed by the ARRC as a replacement for LIBOR in the United States. FHFA-regulated entities are now regular issuers of SOFR indexed debt. FHFA has worked with the Enterprises to develop SOFR-based ARMs and to develop more robust "fallback language" for newly issued ARMs, describing how a replacement rate would be selected in the event of the failure of an ARM's reference rate. After the first half of 2020, the FHLBanks ceased entering into transactions involving LIBOR with maturities beyond 2021. The Enterprises will cease accepting LIBOR-based products by the end of 2020 and are actively transitioning to offer SOFR-based products in 2020 and early 2021.

Responsibly End the Conservatorships

Capital is the foundation of safety and soundness regulation. Therefore, building capital at each Enterprise to match its risk profile is a precondition for responsibly exiting the conservatorships. FHFA's *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (Strategic Plan) provides a framework for how FHFA intends to guide the Enterprises in accordance with FHFA's statutory authority and duty to responsibly end the conservatorships. The new Strategic Plan also lays the foundation for the Enterprises to raise private capital.

FHFA's *2020 Scorecard for the Enterprises and Common Securitization Solutions* (2020 Scorecard) aligns tactical priorities and execution at the Enterprises to the Strategic Plan. Under the 2020 Scorecard, the Enterprises are directed to undertake activities to prepare for a responsible transition out of the conservatorships. This includes the Enterprises working with FHFA to develop the road map and milestones for exiting conservatorship and conducting activities as directed by FHFA arising from recommendations in the reform plans developed by Treasury and HUD.

The Enterprises are also to develop and implement strategies that ensure the efficient use of capital targeted to support their core guarantee business with adequate returns to attract the private capital needed; develop a post-conservatorship strategy for CSS; maintain an effective process to ensure that areas identified for improvement by audit and supervisors are remediated in a timely manner; and maintain a sustainable, effective process for fair lending assessment, monitoring, and mitigation to prepare for a transition to post-conservatorship fair lending supervision and oversight.

Develop Resolution-related Rulemaking

As FHFA prepares to responsibly end the Enterprise conservatorships, it is critical that the Agency build upon its existing resolution capabilities so that it will be better prepared in the event of a failure of any of its regulated entities. Therefore, during FY 2020, FHFA renamed its Division of Conservatorship as the Division of Resolutions. The Agency also began the foundational work necessary to build out a comprehensive resolution framework. During the coming fiscal year, FHFA plans to publish and take public comment on a proposed regulation requiring the Enterprises to submit resolution plans (living wills) similar to those currently required of other large, regulated financial institutions. The proposed regulation is a key step toward FHFA strengthening its resolution framework.

Publish and Finalize Enterprise Liquidity Rule

FHFA directed the Enterprises to meet four new liquidity requirements with a compliance date of December 1, 2020. FHFA expects to issue a Liquidity Notice of Proposed Rulemaking (NPR) that would incorporate the four liquidity requirements into a liquidity regulation. FHFA anticipates that the final liquidity rule will be issued in the third quarter of 2021.

Financial Summary

Analysis of Financial Statements

Overview

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

How Is FHFA Financed?

HERA authorizes FHFA to collect annual assessments from the Enterprises and the FHLBanks to cover the costs of performing the Agency's statutory responsibilities related to supervision of the regulated entities, its conservatorships, and other responsibilities, and to maintain a working capital fund. FHFA is financed through revenue from assessments and is considered a non-appropriated entity (FHFA does not receive any appropriated funds from Congress). In addition to the collection of assessments, HERA authorizes FHFA to invest the idle portions of the assessments through Treasury. Annually, FHFA determines the total expected costs associated with regulating the Enterprises and the FHLBanks. The expected costs are shared proportionally among the Enterprises and the FHLBanks in accordance with FHFA's assessment regulation, Code of Federal Regulations 1206.6. FHFA issues assessment notices to the regulated entities semi-annually, with the collections occurring October 1 and April 1. In FY 2020, FHFA assessed the entities a total of $311.4 million, including $49.9 million to support the OIG.

Under HERA, FHFA is authorized to retain a working capital fund for unforeseen or emergent requirements, which can be funded through a special assessment to the entities or through retention of unobligated balances at the end of the fiscal year. At the end of FY 2020, the FHFA working capital fund had a balance of $34.3 million.

What Is an Unmodified Opinion?

FHFA received an unmodified opinion from GAO on its annual financial statements. This means the auditor, GAO, expressed an opinion that FHFA's financial statements are fairly presented in all material aspects in accordance with the applicable financial reporting framework. Included in the unmodified opinion, GAO noted no material weaknesses or significant deficiencies in FHFA's internal controls and cited no instances of reportable noncompliance with applicable laws and regulations it tested.

FHFA'S Financial Statements

The principal financial statements present FHFA's financial position (Balance Sheet), Statement of Net Cost of Operations, Statement of Changes in Net Position, and Statement of Budgetary Resources for FY 2020 and FY 2019. GAO's audit report, along with complete financial statements and notes for FY 2020 and FY 2019, appear on pages 59-87.

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 U.S. GAAP for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

FY 2020 COVID-19 – Financial Impact on FHFA

As a non-appropriated entity, in FY 2020, FHFA used its existing resources to support necessary activities to ensure the safety of its employees and facility, expanded teleworking activities, and agency activities and policy changes to support the regulated entities. FHFA did not receive additional funding to support these activities. All costs are included in appropriate financial statements discussed below.

What Are FHFA's Net Position and Net Costs?

Balance Sheet

(Assets - Liabilities = Net Position)

The Consolidated Balance Sheet presents, as of September 30, 2020, the recorded value of assets (funding, property, and amounts owed to FHFA), and liabilities (amounts FHFA owes, retained or managed by FHFA). The difference between the assets and liabilities represents FHFA's net position.

Net Position

FHFA's net position (assets-liabilities) increased 45 percent in FY 2020. The Total Asset increase of 23 percent is related to the growth in investments attributable to FHFA's working capital fund, and the increase in Special Assessments for legal and financial services to support exiting conservatorship. The two-percent change in Total Liabilities is mainly due to the increase of $4.2 million in Unfunded Leave. A comparison of the condensed FY 2020 and FY 2019 Balance Sheet is displayed in Table 4. The complete Balance Sheet can be found on page 67.

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

	FY 2020	FY 2019	Percent Change
Total Assets	$133,870	$109,268	23%
Total Liabilities	$58,761	$57,502	2%
Total Net Position	$75,109	$51,766	45%

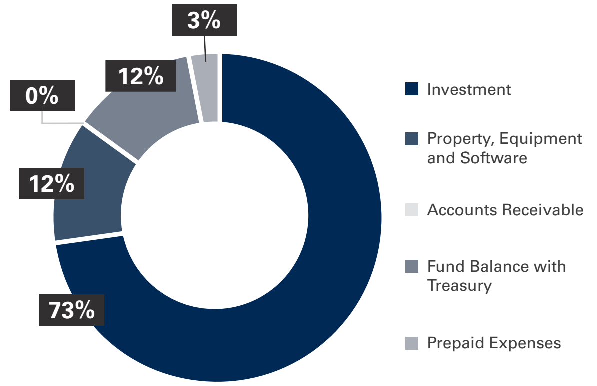
**Amounts are rounded for presentation purposes.*

Assets

For FY 2020, the largest asset groups include: Investments (73 percent); Property, Equipment, and Software, Net (12 percent); and Fund Balance with Treasury (12 percent) as displayed in Figure 5. FHFA had less than one percent in Accounts Receivable at the end of the year, accounting for the zero percent displayed in Figure 5.

FHFA's investment portfolio included semi-annual assessment payments from its regulated entities and the working capital fund. FHFA invested in one-day certificates issued by Treasury to efficiently use idle funds with minimum risk.

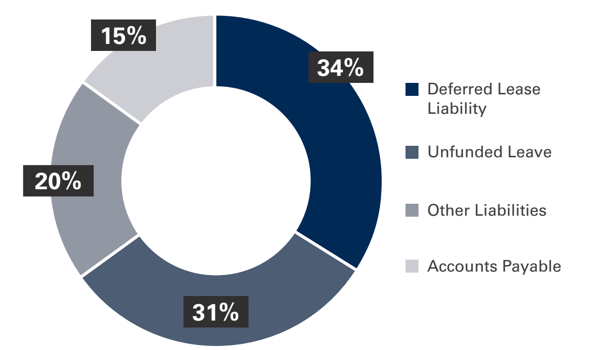
Figure 5: Distribution of Total Assets for FY 2020



Liabilities

FHFA's major liabilities (amounts owed by FHFA to other entities) include Deferred Lease Liability (34 percent); Unfunded Leave (31 percent); and Other Liabilities (20 percent), as displayed in Figure 6. The largest liability, Deferred Lease Liability, consists of deferred rent and Constitution Center tenant allowance.

Figure 6: Distribution of Total Liabilities for FY 2020



Deferred rent is the difference at year-end between the sum of monthly cash disbursement paid to date for rent and the sum of average monthly rent calculated based on the term of the lease. Determination and recording of deferred rent are applicable to the non-federal lease agreement on the property at 400 7th Street SW, Constitution Center, Washington, D.C. The Constitution Center tenant allowance is the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease.

The second largest category, Unfunded Leave, consists of amounts resulting from accumulated, unused employee leave not covered by currently available funding sources. In FY 2020, this category increased as employees were reluctant to use earned leave due to the world-wide travel restriction due to the global pandemic. The third largest liability, Other Liabilities, are amounts owed by FHFA for payroll benefits payable, payroll accruals, employer benefit contributions, and advances and prepayments.

Net Cost

The Statement of Net Cost reflects gross cost of operating the Agency, by strategic goal, less related revenues. The Statement of Net Cost represents the full cost of operating FHFA, consolidated with the costs of operating the FHFA OIG. Gross program costs for FY 2020 are $296.6 million, which is an increase of $18.7 million above the FY 2019 gross program costs.

How Does FHFA Generate Revenue?

FHFA generates revenue through its collection of assessments.

In accordance with HERA, FHFA collected through the semi-annual assessment process $311.4 million during FY 2020, which included a $49.9 million assessment for costs related to the operations of the FHFA OIG. Assessments account for approximately 99 percent of Agency revenues.

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

Revenue for FY 2020 was 13 percent greater than FY 2019 primarily due to higher assessments for legal and financial services related to preparing to exit the Enterprises' conservatorship role.

FHFA's summary costs and revenue are reflected in the Statements of Net Cost for FY 2020 and FY 2019 as presented in Table 5.

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

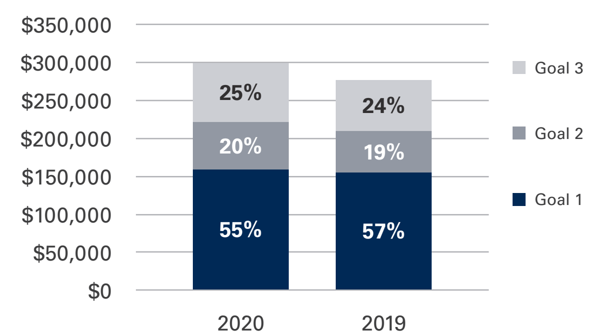
	FY 2020	FY 2019
Costs	$296,618	$277,854
Revenue	($314,010)	($277,444)
Net Cost from Operations	($17,392)	$410

How Does FHFA Align Costs to Strategic Goals?

For FY 2020, FHFA assigned costs to the three strategic goals established by FHFA's 2018-2022 Strategic Plan. These strategic goals are: 1) Ensure safe and sound regulated entities; 2) Ensure liquidity, stability, and access in housing finance; and 3) Manage the Enterprises' ongoing conservatorships.

Costs associated with supporting the effective operations of the Agency are captured in a resource management element. Effective and efficient agency-wide services and management and administrative systems are essential to achieve FHFA's mission and strategic goals. Costs attributable to resource management are distributed proportionately to the three strategic goals based on the percentage of direct program costs allocated to each goal to the total direct program costs for the Agency (individual program costs/total direct program costs). FHFA OIG costs are allocated to FHFA's resource management element. The distribution of FHFA's gross costs by strategic goal for FY 2020 and FY 2019 is presented in Figure 7.

Figure 7: Gross Costs by Strategic Goal FY 2020 – FY 2019
(dollars in thousands)



Safety and Soundness, Goal 1, is FHFA's FY 2020 largest program area at $161.9 million or 55 percent of total gross costs as compared to 57 percent in FY 2019. The next largest program area is Managing the Conservatorships, Goal 3, at $72.8 million, increasing slightly to 25 percent, up from 24 percent of total gross costs in FY 2019. Although program costs increased for Liquidity, Stability, and Access in Housing Finance, Goal 2, it remained the smallest of the three program areas, at $61.9 million, an increase up to 20 percent of total gross costs, a small percentage increase from FY 2019.

How Does FHFA Comply with Internal Controls?

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

Federal Managers' Financial Integrity Act (FMFIA)

During FY 2020, FHFA adhered to the internal control requirements of the FMFIA and the guidance provided by the Office of Management and Budget (OMB) Circular A-123 (A-123). The 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.

During FY 2020, FHFA monitored and assessed the following areas:

Reliability over Financial Reporting

FHFA's Office of Quality Assurance assessed the Agency's financial reporting controls using a risk-based approach. The Office of Budget and Financial Management (OBFM) reviewed the completed assessment and results.

Reliability over Non-Financial Reporting

Assessment teams from FHFA divisions and offices reviewed controls over a sample of non-financial reports using guidance from the *Standards for Internal Control in the Federal Government*, GAO 14-704G, (GAO Green Book)[25]. Division management officials and staff reviewed the completed assessments. OBFM reviewed the completed assessments and results from across the Agency.

Compliance with Laws and Regulations

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

EXECUTIVE COMMITTEE ON INTERNAL CONTROLS

The purpose of the ECIC is to oversee and monitor FHFA's internal controls, enterprise risk management practices, and the audit follow-up process. The ECIC provides recommendations to the FHFA Director regarding assurance statements included in the Agency's Performance Accountability Report as required by FMFIA.

The ECIC serves as the governance body for the Agency's implementation of A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. A-123 provides guidance to executive agencies on responsibilities for the effectiveness and efficiency of operations, the reliability of reporting, and compliance with relevant laws and regulations. The Chief Operating Officer is the ECIC Chair and the Chief Financial Officer is the Vice-Chair. ECIC membership consists of senior leadership from FHFA's mission divisions and resource management offices. Membership includes multiple functional areas, so that various viewpoints are raised and considered. The ECIC also coordinates with the divisions and offices to establish teams to assess the internal controls.

Effectiveness and Efficiency of Operations

Assessment teams from FHFA divisions and offices assessed controls over their operations using guidance from the Green Book. Assessment teams also assessed the controls for a sample of administrative processes and service providers. Division management officials and staff reviewed the completed assessments. OBFM reviewed the completed assessments and results from across the Agency.

The ECIC reviewed documentation from all four areas. In compliance with FMFIA requirements, the FHFA Director, on the basis of a recommendation from the ECIC, provided reasonable assurance that internal controls over the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and non-financial and financial reporting as of September 30, 2020, were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

To ensure compliance with the internal control requirements of FMFIA and the spirit of A-123, the FHFA OIG has maintained an ECIC, which is chaired by the Deputy

[25] https://www.gao.gov/products/GAO-14-704G.

Inspector General for Internal Controls and includes members that constitute a senior team that assesses internal controls. The assessment team includes the associate inspectors general, the chief counsel, all deputy inspectors general, and the budget and finance director.

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

Federal Management Information Systems and Strategy

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

Federal Information Security Modernization Act of 2014

The Federal Information Security Modernization Act of 2014 (FISMA) requires all federal agencies to develop and implement an agency-wide Information Security Program to protect information and systems, including those provided or managed by another agency, contractor, or other source. In addition, FISMA mandates that agencies undergo an annual independent evaluation of Information Security Program and practices, as well as an assessment of compliance with FISMA requirements. FISMA, which Congress passed in 2002, was updated in 2014.

The FHFA OIG contracted with an independent external audit firm to conduct performance audits of FHFA and FHFA OIG's Information Security Program and practices as per U.S. Generally Accepted Government Auditing Standards for FY 2020. As such, the FHFA OIG conducted an independent evaluation of its Information Security Program using an external audit firm. Two performance audits were performed as the FHFA OIG operates its own network, systems, and related Information Security Programs, which are separate from those of FHFA, the Agency. Specifically, the objectives of the audit were to evaluate the effectiveness of FHFA's and FHFA OIG's Information Security Program and practices and respond to the Department of Homeland Security's FY 2020 Inspector General FISMA Reporting Metrics. The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from National Institute of Standards and Technology Special Publication 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations.[26]

The audits concluded that both FHFA and FHFA OIG's Information Security Program and practices were operating effectively, in compliance with FISMA legislation and applicable OMB guidance. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA OIG Information Security Programs. The auditor reviewed and verified corrective actions taken by FHFA and FHFA OIG during the FY 2019 FISMA audit.

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

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 2020, the dollar amount subject to prompt payment was $80.8 million. The amount of interest penalty paid in FY 2020 was $0.00.

Digital Accountability and Transparency Act of 2014

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

FHFA Statement of Assurance

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

October 15, 2020

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2020

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 internal control over the effectiveness and efficiency of operations, reporting (other than financial reporting), and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's *OMB Circular A-123 - Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123). Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations, reporting (other than financial reporting), and compliance with applicable laws and regulations as of September 30, 2020 were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

In addition, FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements, using a risk based approach based on criteria established under FMFIA and adapted from 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, 2020 were operating effectively and no material weaknesses were found in the design and operation of internal controls over financial reporting.

FHFA also conducted a review of its financial management system in the spirit of compliance with Appendix D of Circular A-123. Based on the results of this review, FHFA can provide reasonable assurance that its financial management systems substantially complied with the requirements for federal financial management systems as of September 30, 2020.

Sincerely,

Mark Calabria
Director

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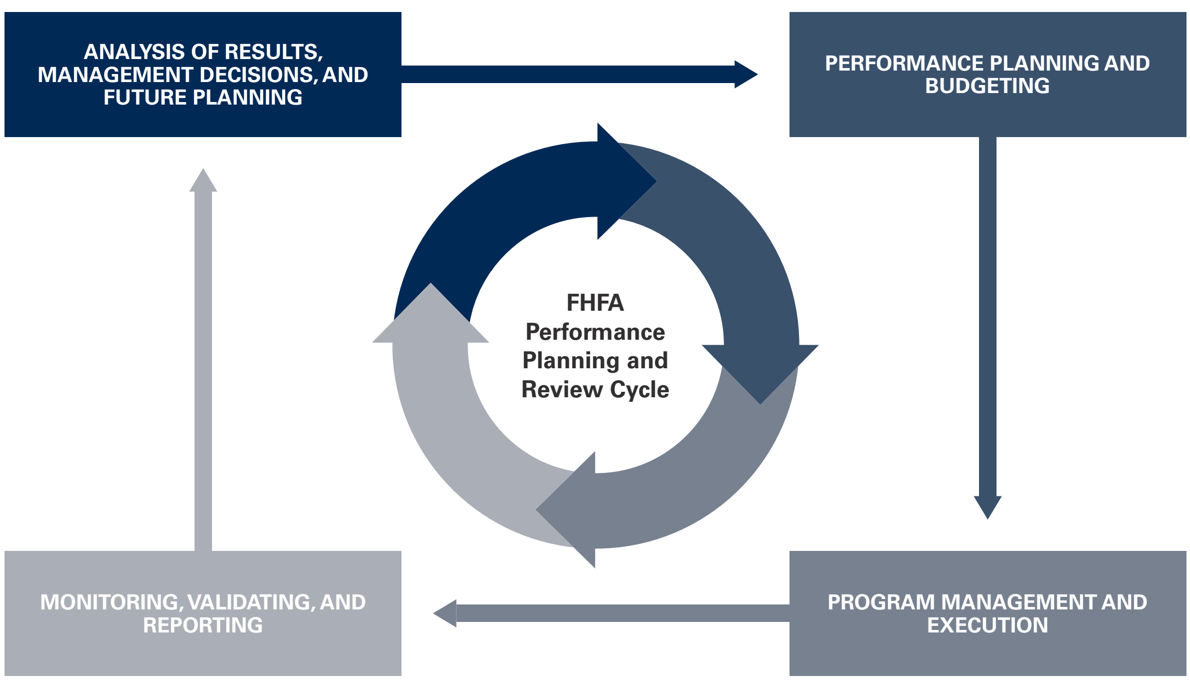
PERFORMANCE SECTION

In This Chapter

FHFA's Performance Planning and Review Process

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

Figure 8: FHFA's Performance Management Cycle



The first step in FHFA's performance management process is to develop the Agency's Strategic Plan, which identifies FHFA's strategic goals (longer-term outcome level results), performance goals (intermediate results that need to be achieved to accomplish the strategic goals), and means and strategies for achieving the performance goals. The Strategic Plan that forms the basis of this FY 2020 PAR was published on January 29, 2018. The Agency's APP provides more operational detail on how progress will be made toward the strategic goals and performance goals and identifies performance measures with annual targets to track progress toward the performance goals. FHFA conducts quarterly performance reviews of progress toward annual performance measure targets. Goal leaders submit quarterly data for the performance measures and targets for which they are responsible. Performance data on results are validated and verified, then reported in the annual PAR. FHFA's senior leadership reviews the quarterly reports to monitor progress toward achieving planned performance and strategic goals. Performance data are reviewed and analyzed throughout the year to monitor the Agency's progress in achieving planned performance levels and are used to influence management and planning decisions, which feed into the next annual performance planning process. Figure 9 illustrates in more detail FHFA's performance planning and review process.

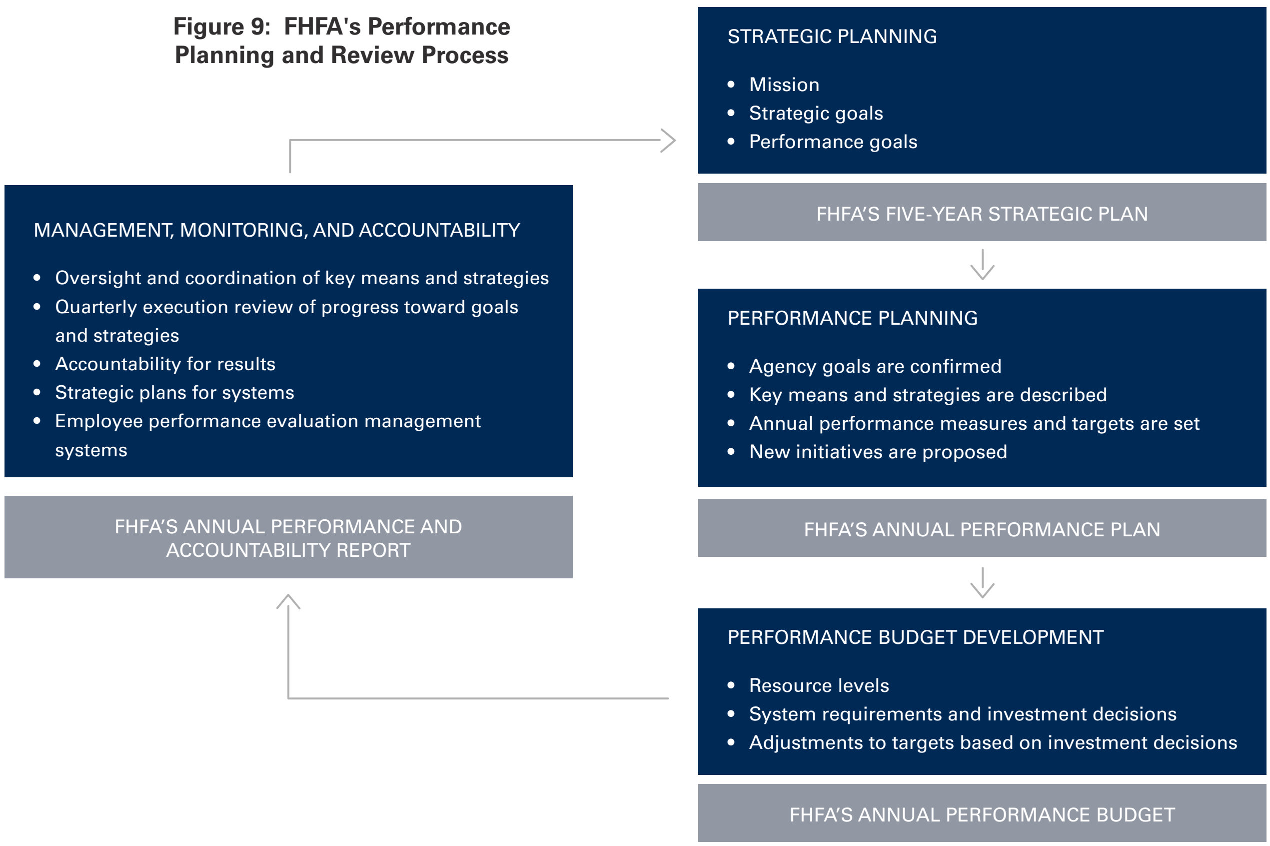


Figure 9: FHFA's Performance Planning and Review Process

Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2020 PAR is complete and reliable, FHFA identifies, verifies, and validates the data for each performance measure. Each office or division collects performance data for its measures and reports the results in the Agency's performance tracking system. FHFA staff follows documented performance tracking and verification procedures to verify and validate the data provided to ensure that the information is accurate and complete. Agency staff reviews the information provided by offices on their performance measures on a quarterly basis, verifying and validating supporting data and documents for completeness, clarity, relevance, and accuracy. A quarterly report summarizing this information is sent to senior management officials.

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

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

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

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

Strategic Goal 1 – Additional Selected Accomplishments

FHFA achieved several accomplishments in FY 2020 that contributed to progress toward the strategic goal. Selected FY 2020 accomplishments include:

- **Supervision and Examination Training:** During the fiscal year, DBR and DER continued work to implement revisions to the Housing Finance Examiner (HFE) Commission Program requirements approved in FY 2019. DBR and DER worked on developing a division-tailored HFE Commission Program that includes courses focused on the FHFA examination rating system known as CAMELSO, rules and regulations, and examination practices; as well as on-the-job training requirements. As a result of COVID-19, the HFE Commission Program courses were updated to be online courses. DBR successfully delivered its Examination Practices course resulting in two participants earning their HFE Commission in September 2020. DBR and DER continue work to develop the remaining required coursework. DBR and DER expect to deliver their CAMELSO course in FY 2021, and DBR expects to deliver its Rules and Regulations course in FY 2022. DER's rules and regulations are included in its Examination Practices course.
- **Annual Enterprise Stress Tests:** On August 13, 2020, the Director temporarily waived the requirement that each Enterprise publish a summary of its Dodd-Frank Act Stress Test (DFAST) results no later than August 15, 2020, as mandated by FHFA's implementing regulation. Following the onset of COVID-19 events, each of the Enterprise's board of directors considered alternative scenarios that were not included among the scenarios initially issued by FHFA. As a result, the Director has waived the publication deadline in order to permit the inclusion of the alternative scenarios.
- **Current Expected Credit Losses (CECL) Implementation:** Beginning January 1, 2020, the regulated entities implemented the Financial Accounting Standards Board's (FASB) ASU 2016-13, Financial Instruments – Credit Losses and subsequent amendments to account for expected credit losses on financial assets. FHFA reviewed and did not object to the accounting policy conclusions reached by the regulated entities. The ASU is informally referred to as the CECL model. CECL requires entities to reserve for credit losses expected over the remaining life of assets (for the regulated entities, primarily loans and receivables held for investment) from the time of acquisition. The reserve is re-measured in subsequent reporting periods based on the entity's current expectation of credit losses.

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

FHFA assesses the safety and soundness of the regulated entities' operations through annual examinations, targeted examinations, ongoing monitoring, and offsite reviews, as appropriate. FHFA uses a uniform examination rating system to assign ratings to the Enterprises, the FHLBanks, and OF. FHFA annually assigns each regulated entity a composite rating for the overall condition of the entity, and individual component ratings for CAMELSO.[27]

To track progress toward Performance Goal 1.1, FHFA monitored five performance measures. As shown in Table 6, FHFA met the FY 2020 performance targets for four of the measures and did not meet the target for one of the measures. The written risk-based examination priorities and examination plans for the Enterprises were approved and in place by January 31, 2020; however, a separate written supervisory strategy was not prepared.

[27] For OF, FHFA assigns individual component ratings only for Management and Operational risk.

Table 6: Performance Goal 1.1 – Performance Measures and Results							
Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
1.1.1: Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and by January 31 for the Enterprises	MET	MET	MET	MET	MET	100 percent of the time	NOT MET
1.1.2: Approve reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	NOT MET	MET	MET	NOT MET	MET	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity-to-par ratio greater than or equal to one for each FHLBank	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.5: Ensure that supervisory correspondence to the Enterprises is reviewed for adherence to division guidance	N/A	N/A	N/A	N/A	MET	100 percent of the time	MET

PERFORMANCE MEASURE 1.1.1

Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and by January 31 for the Enterprises

Risk-based examinations focus FHFA resources on areas of greatest risk. Risk-based scope and strategy documents communicate important areas of focus to staff and aid in the overall examination planning process. FHFA did not meet this measure for FY 2020 as explained below.

- The Enterprises: FHFA examiners are located onsite (until the pandemic and then offsite) to examine each Enterprise on a continuous basis. In FY 2020, a key part of the annual planning process was the identification of examination priorities. These priorities were used in the development of the 2020 examination plans and were informed by FHFA core knowledge, the 2018 ROE, risk assessments, and examination work completed during 2019. The written risk-based examination priorities and examination plans for the Enterprises were approved and in place by the target date of January 31, 2020; however, a separate written supervisory strategy was not prepared.

- FHLBanks and OF: FHFA examines the FHLBanks and OF annually, and FHFA's examiners generally begin examinations at three entities per quarter. Examinations at the FHLBanks have specified beginning and end dates. In FY 2020, FHFA ensured that supervisory strategies and scope memoranda were in place prior to the start of each FHLBank's annual onsite examination.

PERFORMANCE MEASURE 1.1.2

Approve reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises

FHFA communicates supervisory results, findings, and expectations for remedial action to the Enterprises, the FHLBanks, and OF through supervisory correspondence and ROEs. ROEs summarize key examination findings for the prior year and include ratings assigned in accordance with the CAMELSO ratings framework. In FY 2020, FHFA met the target dates for approving ROEs for the Enterprises as well as the FHLBanks and OF, ensuring timely documentation of FHFA's overall assessment of the safety and soundness of the regulated entities' operations and, contributing to achievement of Performance Goal 1.1.

- The Enterprises: FHFA approved the ROEs for Fannie Mae and for Freddie Mac on time (March 31, 2020).

- FHLBanks: During FY 2020, FHFA approved ROEs within the target timeframe of 90 days after examination exit meetings for the FHLBanks and OF.

FINANCIAL CONDITION OF THE ENTERPRISES

Under the Senior PSPAs the Enterprises are constrained by their ability to build capital while in conservatorship. Until recently, each Enterprise was limited to a $3.0 billion Capital Reserve Amount under its respective PSPA. As amended in September 2019, Treasury and FHFA agreed to increase the Capital Reserve Amount to $25.0 billion for Fannie Mae[a] and $20.0 billion for Freddie Mac[b] beginning with the July 1, 2019 dividend period. The Enterprises' net worth increased to $20.7 and $13.9 billion for Fannie Mae and Freddie Mac, respectively, by the end of FY 2020 based on the September 2019 letter agreement with Treasury. This significantly improved the Enterprises' leverage ratios; however, their combined ratio remained high at approximately 183:1. In addition to the increase in the Capital Reserve Amount, the letter agreement with Treasury increased the Liquidation Preference by similar amounts.[c]

Both Enterprises have lessened their reliance on portfolio-driven business as a result of a number of factors, including retained portfolio limits in the PSPAs. It is critical that they effectively manage credit risks associated with guaranteed loans. While the Enterprises stopped purchasing certain high-risk loan products after 2008, their acquisition guidelines and underwriting models have permitted acquisitions of loans with one or more risk factors, such as low down payments resulting in high loan-to-value (LTV) ratios and high debt-to-income ratios. Additional risk factors are present in mortgages on non-primary residences, as well as refinance transactions where the borrower receives cash. Cash-out refinance transactions increased in recent years, both for single-family and multifamily properties, as a long period of robust home price gains has allowed borrowers to extract equity from mortgaged property. Acquisitions of loans with multiple factors pose increased credit risk to the Enterprises, and in FY 2020 the Enterprises took steps to mitigate the increased risk posed by these layered risk factors, for example, through improvements to underwriting models. Throughout FY 2020, the Enterprises continued to utilize Credit Risk Transfers (CRTs) to transfer significant credit risk to the private market.

The Enterprises' ownership of seriously delinquent single-family loans, defined as loans that are more than 90 days overdue, increased significantly in fiscal year 2020 due to the economic dislocation caused by the COVID-19 pandemic, which increased borrower participation in forbearance plans. A significant majority of the single-family serious delinquent loan additions in the first nine months of 2020 have been in a COVID-19-related forbearance. The number of loans in forbearance as of September 30, 2020 was approximately 703,000 and 342,000 at Fannie Mae and Freddie Mac, respectively. At the same time, the single-family serious delinquency rates were 3.20 percent and 3.04 percent, respectively, for Fannie Mae and Freddie Mac. By comparison, in September 30, 2019, the single-family serious delinquency rates were 0.68 percent and 0.61 percent, respectively, for Fannie Mae and Freddie Mac. The Enterprises expect the COVID-19 pandemic to result in a continued higher single-family serious delinquency rate over the next several quarters. FHFA is closely monitoring the Enterprises' assessment of the COVID-19 impact and the related risk management practices to ensure identification, monitoring, and management of related credit risks.

The Enterprises have two primary sources of revenue: 1) guarantee fees on mortgages held by consolidated trusts holding Enterprise MBS; and 2) the difference between the interest income earned on the assets in the Enterprises' retained mortgage portfolios and the interest expense paid on the debt that funds those assets. In 2020, as in prior years,[d] the Enterprises earned a greater proportion of net income from guarantee fees than from interest income. This is primarily driven by the impact of guarantee fee increases and reduction in the size of the retained portfolios in accordance with the requirements of the PSPAs between Treasury and the Enterprises.

In addition, the Enterprises continue to report reduced income due to declining retained portfolios and reduced revenue from the increasing volume of CRT transactions. While both of these activities meet conservatorship objectives for the Enterprises, they also reduce revenue. The terms of the PSPAs require the Enterprises to reduce their retained mortgage portfolios, which reduces the risk of these portfolios. As conservator, FHFA has also required the Enterprises to conduct CRT transactions that reduce risk to taxpayers by sharing credit risk with the private sector.

FINANCIAL CONDITION OF THE ENTERPRISES *(CONTINUED)*

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

Also, in June 2016, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2016-13, which became effective for FHFA's regulated entities on January 1, 2020. The ASU requires companies to measure the allowance for credit losses based on CECL. This is a change from the incurred-loss methodology used previously. The adoption of CECL on January 1, 2020 resulted in a reduction of retained earnings of $1.1 billion and $0.2 billion on an after-tax basis for Fannie Mae and Freddie Mac, respectively.

The Enterprises' earnings will continue to be highly sensitive to fluctuations in macroeconomic conditions, housing prices, and interest rates. For example, given the large size of the Enterprises' guarantee portfolios, small changes in home prices may have a significant impact on financial performance. In addition, the continued reduction in the retained portfolios as well as initiatives such as CRT transactions could reduce revenue and increase the likelihood of future losses.

[a] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/9-27-19_FNMA-Capital-Agreement.pdf.

[b] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/9-27-19_FRE-Capital-Agreement.pdf.

[c] The Liquidation Preference, with respect to the Senior Preferred Stock issued to Treasury by the Enterprises, refers to the amount that must be paid to Treasury before investors in more junior classes of preferred or common stock can receive any payment on their stock in the event of liquidation. The amount of Liquidation Preference for the Senior Preferred Stock is specified in the PSPAs and subsequent letter agreements amending certain terms of the PSPAs.

[d] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_2019_Report-to-Congress.pdf.

Table 7: Enterprise Financial Results Summary of First 3 Quarters of 2020 and Full Year 2019
(dollars in billions)

	Fannie Mae				Freddie Mac			
	2020			2019 Annual	2020			2019 Annual
	Q1	Q2	Q3		Q1	Q2	Q3	
Net Income (Loss)	$0.5	$2.5	$4.2	$14.2	$0.2	$1.8	$2.5	$7.2
Comprehensive Income (Loss)*	$0.5	$2.5	$4.2	$14.0	$0.6	$1.9	$2.4	$7.8

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

FINANCIAL CONDITION OF THE FHLBANKS

The financial condition and performance of the FHLBanks was sound during the 12-month period ending September 30, 2020. All 11 FHLBanks were profitable, earning a combined $3.0 billion on $4.5 billion of net interest income after provision for credit losses, but performance was lower than the $3.1 billion and $4.8 billion, respectively, for the prior four-quarter period. The FHLBanks recaptured $131 million of losses through interest income previously taken as credit-based, other-than-temporary impairments. Operating expenses totaled $1.3 billion for the year that ended September 30, 2020.

Member demand for FHLBank advances decreased $179.7 billion over the past fiscal year, resulting in $479.0 billion of advances outstanding at September 30, 2020. Advances made up 53.6 percent of total FHLBank System assets. The total FHLBank portfolio balance of mortgages purchased from their members was $68.1 billion, or 7.6 percent of total FHLBank System assets. During the fiscal year ending September 30, 2020, the FHLBanks purchased $22.6 billion of mortgages and collected principal payments of $23.7 billion.

The FHLBanks' remaining assets are primarily investments, which include liquid assets,[a] MBS, and other investments. Combined, investments were $342.8 billion and represented 38.3 percent of total FHLBank System assets. Of the total, liquid assets (including cash and Treasury securities) represented $173.2 billion,[b] while total MBS was $138.5 billion. Most of the MBS portfolio was agency MBS (90.6 percent), with only $3.3 billion (2.4 percent) composed of private-label MBS.

Aggregate consolidated obligations, which is the debt issued jointly and used by each FHLBank to fund its operations, totaled $821.9 billion as of September 30, 2020, of which discount notes were 37.3 percent. Consolidated obligations with a remaining contractual maturity of less than one year composed 80.7 percent of total consolidated obligations. Table 8 provides a summary of the FHLBanks' financial results through September 30, 2020.

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

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

Table 8: FHLBanks' Financial Results Summary of First 3 Quarters of 2020 and Full Year 2019

(dollars in millions)

	Net Income (Loss)*			
	2020			2019 Annual
	Q1	Q2	Q3	
FHLBank of Boston	$42	$3	$54	$191
FHLBank of New York	$105	$138	$101	$473
FHLBank of Pittsburgh	$36	$60	$57	$317
FHLBank of Atlanta	$108	$56	$56	$367
FHLBank of Cincinnati	$80	$99	$57	$276
FHLBank of Indianapolis	$30	$13	$15	$142
FHLBank of Chicago	$80	$52	$85	$300
FHLBank of Des Moines	$92	$85	$150	$384
FHLBank of Dallas	$52	$67	$48	$227
FHLBank of Topeka	$12	$20	$40	$185
FHLBank of San Francisco	-$8	$87	$161	$327
FHLBank System	$627	$682	$826	$3,188

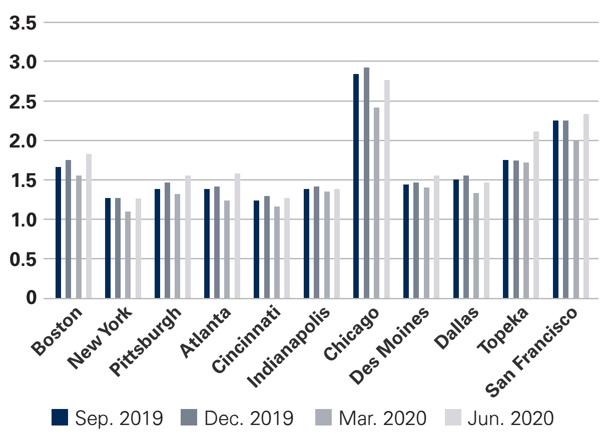
**Numbers may not add due to rounding.*

PERFORMANCE MEASURE 1.1.3

Ensure a quarterly Market Value of Equity-to-par ratio greater than or equal to one for each FHLBank

The market value of equity (MVE) to par value of capital stock (PVCS) ratio is an indicator of each FHLBank's condition. A ratio of one or above is desirable because it reflects an FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. For every quarter of FY 2020, all FHLBanks reported that their MVE ratio for the previous quarter was greater than the par value of their capital stock, as shown in Figure 10.

Figure 10: Quarterly MVE to PVCS Ratios



PERFORMANCE MEASURE 1.1.4

Ensure each FHLBank is adequately capitalized on a quarterly basis

Capital adequacy is critical for safe and sound FHLBanks. During each quarter of FY 2020, FHFA determined the capital classification for each FHLBank for the prior quarter and communicated it to the Bank. These communications were made via letter and were in accordance with Subpart A of Part 1229 of FHFA's rule, "Capital Classifications and Prompt Corrective Action." For all four quarters of FY 2020, FHFA determined that all FHLBanks were adequately capitalized,[28] meeting the target for this performance measure.

PERFORMANCE MEASURE 1.1.5

Ensure that supervisory correspondence to the Enterprises is reviewed for adherence to division guidance

FHFA staff conducts independent quality control (QC) reviews of supervisory correspondence to the Enterprises and supporting documentation. These reviews confirm that written communications of examination conclusions and findings are supported by documented examination work and that examination work performed by examiners is consistent with DER examination standards and FHFA guidance for document preparation and management. In FY 2020, FHFA met the target for this performance measure by conducting independent QC reviews of all conclusion and remediation letters prior to transmission to the Enterprises.

Performance Goal 1.2: Identify Risks to the Regulated Entities and Set Expectations for Strong Risk Management

FHFA's Performance Goal 1.2 centers on identifying risks to the regulated entities and setting strong risk management expectations. FHFA's supervisory activities are designed to identify existing and emerging risks to the regulated entities. FHFA develops risk assessments by collecting and analyzing information from various sources, including the regulated entities, coordinating with other supervisory agencies as needed. FHFA publishes guidance for examiners and management at the regulated entities to clearly articulate supervisory expectations for risk management across all risk types. This includes issuing ABs on specified topics and including supervisory guidelines for examiners in the Agency's Examination Manual. FHFA also issues additional examination instructions to address emerging issues and provides procedural updates.

While the Agency did not have a measure for Performance Goal 1.2, FHFA issued written standards to the regulated entities in the form of ABs in FY 2020 to address this performance goal. FHFA issued seven ABs in FY 2020 as shown in Table 9.

[28] "Adequately capitalized" is defined in Subpart A of Part 1229 of FHFA's rule ("Capital Classifications and Prompt Corrective Action" [PCA rule]) and is based on a FHLBank's total capital ratio and leverage ratio exceeding regulatory minimums, and permanent capital exceeding the sum of credit risk, market risk, and operations risk capital requirements.

Table 9: Advisory Bulletins Issued by FHFA in FY 2020			
Policy Subject	**Reference**	**Date**	**Description**
Advisory Bulletin on Compliance Risk Management	AB 2019-05	October 3, 2019	The AB communicates expectations for a compliance risk management program (compliance program[29]) to maintain the safety and soundness of the Enterprises' operations.
Advisory Bulletin on Credit Risk Transfer: Analysis and Reporting	AB 2019-06	November 14, 2019	This AB articulates FHFA's supervisory expectations for the analysis and internal reporting of certain proposed or in-force CRT activities.
Advisory Bulletin on Acquired Member Assets Risk Management	AB 2020-01	January 31, 2020	This AB outlines FHFA's guidance with respect to risk management of Acquired Member Assets, including the establishment of certain limits and thresholds by FHLBank boards of directors.
Advisory Bulletin on Board Diversity	AB 2020-02	July 9, 2020	This AB provides guidance on the diversity and inclusion program oversight responsibilities of the System's boards of directors.
Advisory Bulletin on Use of Proxies in the AHP Program	AB 2020-03	July 17, 2020	This AB contains guidance, pursuant to the AHP regulation, on the FHLBanks' or their designees' use of proxies for determining whether the subsequent purchaser of an owner-occupied unit sold, transferred, or assigned by an AHP-assisted household during the AHP five-year retention period is low- or moderate-income.
Advisory Bulletin on Financial Reporting and Disclosure and External Audit	AB 2020-04	August 20, 2020	This AB articulates FHFA's supervisory expectations for oversight and management of financial reporting and disclosures and of the external audit function.
Advisory Bulletin on Cybersecurity Incident Reporting	AB 2020-05	August 21, 2020	This AB communicates FHFA's supervisory expectations for cybersecurity incident reporting at the Enterprises.

[29] 12 CFR 1239.12

Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses

FHFA carefully documents adverse examination findings and conclusions and communicates them to the regulated entities. FHFA uses three categories to classify examination findings: (1) recommendations, (2) MRAs, and (3) violations. Recommendations identify policies, procedures, or practices that could be improved, while MRAs and violations require the regulated entity to take remedial action. FHFA subsequently assesses the actions taken in response to these supervisory communications through its ongoing supervisory work and assesses the timeliness and effectiveness of the regulated entities' efforts to remediate identified weaknesses.

As shown in Table 10, FHFA monitored one performance measure for Performance Goal 1.3, and met the FY 2020 target for the measure.

Table 10: Performance Goal 1.3 – Performance Measures and Results							
Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
1.3.1: Determine that the regulated entities have satisfactorily addressed safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes	MET	NOT MET	NOT MET	NOT MET	MET	90 percent of the time	MET

PERFORMANCE MEASURE 1.3.1

Determine that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes

Where there is a significant supervisory concern or violation of law or regulation by one of the regulated entities, FHFA may issue an MRA that requires the entity's board of directors and/or management take corrective action to address deficiencies and violations. FHFA tracks the remediation of MRAs to ensure that the regulated entity has addressed the supervisory concern or violation of law or regulation. The FY 2020 target for Performance Measure 1.3.1 for both the Enterprises and the FHLBanks was for FHFA to determine that the regulated entities have satisfactorily addressed safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes 90 percent of the time. The 90 percent target was successfully met for the first time in four years for the Enterprises, the FHLBanks, and OF, demonstrating progress toward Performance Goal 1.3.

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

- The Enterprises: The Enterprises begin to address MRAs by submitting proposed remediation plans to FHFA for review and non-objection. Each non-objected remediation plan includes a timeframe for completion, either within the fiscal year the MRA was issued or beyond. Enterprise management executes the actions required in each remediation plan and submits documentation demonstrating remediation activities to the Enterprise's internal audit function for validation. After the internal validation is complete, FHFA reviews the Enterprise's actions and the internal audit function's validation to determine whether the Enterprise has satisfactorily addressed the MRA pursuant to the plan within an agreed-upon timeframe. FHFA determined that 97 percent of all the MRAs that were validated by the Enterprises' internal audit functions and submitted for the FY 2020 reporting period had been satisfactorily addressed, meeting the FY 2020 performance target for the Enterprises for Performance Measure 1.3.1.[30]
- FHLBanks and OF: For each FHLBank and for OF, FHFA reviews that individual entity's satisfactory resolution of its MRAs in conjunction with FHFA's annual examination cycle. FHFA gathers information about MRA resolution in the course of annual exam work and determines whether the Bank or OF addressed MRAs outstanding prior to the examination within agreed upon timeframes, or if it is sufficiently on track to address them within the established remediation plan. At FHLBank and OF examinations conducted during FY 2020, FHFA followed up on outstanding MRAs to determine whether the entities had remediated them or if they were making progress according to their remediation plans. For FY 2020, 95 percent of FHLBank MRAs passed FHFA's assessment, exceeding the Performance Measure 1.3.1 target of 90 percent.

[30] In addition to the MRA tracking included in performance measure 1.3.1, FHFA monitors the status of Enterprise completion of MRAs, including those MRAs not yet forwarded to the Enterprises' internal audit function for validation, during the course of Agency onsite (until the pandemic and then offsite) supervisory and examination functions.

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

FHFA has the statutory obligation to foster liquid, efficient, competitive, and resilient national housing finance markets, while ensuring that the regulated entities meet their fundamental safety and soundness obligations. Achieving a liquid, healthy housing finance market throughout the country also requires improved access to responsible mortgage credit across different market segments of creditworthy borrowers. FHFA is committed to fair and equitable access to the regulated entities' financial services by qualified institutions and creditworthy borrowers.

Strategic Goal 2 – Additional Selected Accomplishments

FHFA achieved several accomplishments in FY 2020 that contributed to progress toward the strategic goal.

- **Joint Enterprise Credit Score Solicitation**: On February 18, 2020, FHFA announced that the Enterprises published a Joint Credit Score Solicitation. The Credit Score Solicitation described the process for credit score model developers to submit applications to the Enterprises. The Enterprises began accepting applications on May 18, 2020. The application period was open for 120 days and ended on September 15, 2020. The Enterprises will continue this multiyear effort until they have an updated validated and approved credit score model. That announcement is expected by the end of 2021.

- **LEP Support**: During FY 2020, FHFA and the Enterprises completed all objectives on the Language Access Multi-Year Plan. One of the main deliverables of the plan was the development of the Mortgage Translations Clearinghouse for industry participants, including loan originators, servicers, and housing counselors, to better serve borrowers with LEP. The clearinghouse serves as a centralized repository of translated mortgage documents, borrower education materials, and a glossary of terms associated with the mortgage process in Spanish, Chinese, Vietnamese, Korean, and Tagalog. In response to COVID-19, FHFA also worked with the Enterprises to include forbearance servicer scripts, the Mortgage Assistance Application, and an educational servicing brochure in the Clearinghouse, so industry participants would have easy access to information in different languages when working with borrowers affected by the pandemic.

- **FHLBanks Housing Goals Final Rule**: FHFA published a final rule on the FHLBanks Housing Goals on June 25, 2020. The new goals take effect in 2021, and enforcement of the rule will be phased in over three years. By creating achievable housing goal targets, the new rule ensures the FHLBanks make meaningful contributions to affordable homeownership.

Performance Goal 2.1: Ensure Liquidity in Mortgage Markets

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

FHFA monitored one performance measure for Performance Goal 2.1. The FY 2020 target for the measure, as shown in Table 11, was not met. FHFA wanted to ensure that all public comments received in response to the re-proposal of the rule received a thorough review and were carefully considered as the Agency develops the final rule.

Table 11: Performance Goal 2.1 – Performance Measure and Result							
Performance Goal 2.1: Ensure Liquidity in Mortgage Markets							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
2.1.1: Issue a final Capital Regulation for the Enterprises	**N/A**	**N/A**	**N/A**	**N/A**	**NOT MET**	FY 2020	**NOT MET**

PERFORMANCE MEASURE 2.1.1

Issue a final Capital Regulation for the Enterprises

In May 2020, FHFA re-proposed a capital framework for the Enterprises. The proposed rule would establish a strengthened regulatory capital framework designed to ensure each Enterprise is capitalized to remain a viable going concern both through and after a severe economic downturn and is positioned to fulfill its statutory mission to provide stability and on-going assistance to the secondary mortgage market across the economic cycle.

The proposed rule maintains at its core the mortgage-risk sensitive capital framework of the 2018 proposal, backstopped by a leverage ratio requirement. The proposed rule includes four key enhancements: quality of capital, quantity of capital, mitigants to pro-cyclicality, and an advanced approach to complement the standardized approach to risk-based capital requirements.

Together, the enhancements in the re-proposal ensure each Enterprise's safety and soundness and its ability to fulfill its statutory mission across the economic cycle, in particular during periods of financial stress. The comment period for the re-proposed rule ended on August 31, 2020. FHFA is reviewing and assessing the feedback provided in the 129 comment letters received on the re-proposed rule.

Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets

FHFA expects the regulated entities to establish transparent and well-reasoned policies and procedures in support of this goal. As conservator of the Enterprises, FHFA also promotes stability by working to preserve and conserve the Enterprises' assets. In addition, FHFA encourages the regulated entities and the housing industry to adopt standards and practices that promote market and stakeholder confidence. FHFA continues to conduct research, collect and analyze data, and publish important information in FY 2020 on housing and market conditions. This informs policy decisions and the public and promotes market efficiency and stability. Selected examples include:

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

Examples of research publications completed during FY 2020 include:

1. Land Valuation using Public Records and Kriging: Implications for Land versus Property Taxation in Cities.
2. Nowcasting Unemployment Insurance Claims in the Time of COVID-19.

In FY 2020, FHFA tracked progress toward Performance Goal 2.2 using one performance measure, as shown in Table 12. The FY 2020 target was met.

Table 12: Performance Goal 2.2 – Performance Measure and Result							
Performance Goal 2.1: Ensure Liquidity in Mortgage Markets							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
2.2.1: Publish 12 monthly and 4 quarterly FHFA House Price Indices	**MET**	**MET**	**MET**	**MET**	**MET**	FY 2020	**MET**

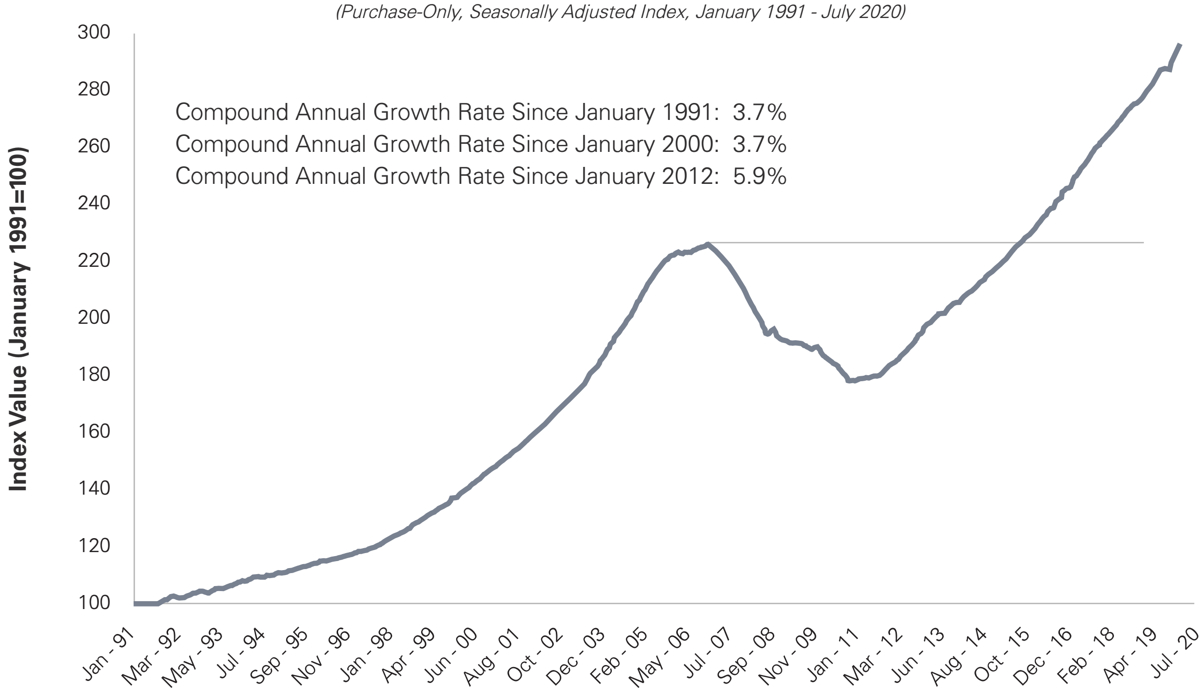
PERFORMANCE MEASURE 2.2.1

Publish 12 monthly and 4 quarterly FHFA House Price Indices

The statutorily required FHFA monthly HPI is a broad measure of the movement of single-family house prices, calculated using home sales price information for mortgages sold to, or guaranteed by, the Enterprises. The FHFA HPI serves as a timely, accurate indicator of house price trends at various geographic levels. Because of the breadth of the sample used for the survey, it provides more information than is available in other house price indices. The FHFA HPI provides housing economists with an analytical tool that is useful for estimating changes in the rates of mortgage defaults, prepayments, and housing affordability in specific geographic areas. FHFA HPI data are available at https://www.fhfa.gov/HPI. During FY 2020, FHFA published 12 monthly and 4 quarterly FHFA House Price Indices, meeting the performance target. Figure 11 shows the FHFA HPI from 1991 to 2020.

Figure 11: Monthly FHFA House Price Index

(Purchase-Only, Seasonally Adjusted Index, January 1991 - July 2020)



Source: FHFA

Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes in All Geographic Locations and for Qualified Borrowers

Having a liquid housing finance market throughout the country requires active participation by a wide range of lenders, including small lenders and lenders that serve rural areas, as well as state and local Housing Finance Agencies. Additionally, a healthy housing market requires liquidity and access across different borrower market segments to provide homeownership opportunities to creditworthy borrowers, sensible and appropriate loss mitigation options when borrowers fall into economic distress, and affordable rental housing options. Even in liquid markets, and especially during times of market uncertainty, some qualified borrowers and financial institutions may face barriers and disruption in their access to financing. FHFA is committed to fair and equitable access to the regulated entities' financial services for qualified financial institutions and creditworthy eligible borrowers.

In FY 2020, FHFA tracked progress toward Performance Goal 2.3 with one performance measure. As shown in Table 14, FHFA met the 2020 target for the measure.

Table 13: Performance Goal 2.3 – Performance Measure and Result							
Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes in All Geographic Locations and for Qualified Borrowers							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
2.3.1: Conduct diversity and inclusion examinations of the regulated entities	**N/A**	**N/A**	**N/A**	**MET**	**MET**	10 examinations during FY 2020	**MET**

PERFORMANCE MEASURE 2.3.1

Conduct diversity and inclusion examinations of the Enterprises, CSS, the FHLBanks, and OF

The regulated entities, OF, and CSS have statutory and regulatory requirements for advancing diversity and ensuring inclusion in all of their business activities. The regulated entities, OF, and CSS have implemented formalized processes to assess and, where appropriate, integrate diversity and inclusion across organizations, programs, and initiatives. They have also identified performance-based diversity and inclusion goals. FHFA conducts examinations of the diversity and inclusion programs of the regulated entities, OF, and CSS to ensure compliance with regulatory requirements, including in the areas of workforce and board diversity, procurement, and finance.

FHFA executes supervisory strategies that establish areas of focus, sets expectations for the regulated entities, OF, and CSS to ensure their compliance. It also conducts examinations. In FY 2020, FHFA conducted 12 examinations of regulated entities' compliance with diversity and inclusion goals and requirements, surpassing the target of 10 examinations.

DIVERSITY AND INCLUSION REPORTS OF EXAMINATION ACROSS THE REGULATED ENTITIES

Section 1116 of HERA requires FHFA's regulated entities to establish an office that promotes diversity in all activities at every level of their organization, including employment, management, and contracting. To implement Section 1116, FHFA adopted the Minority and Women Inclusion (MWI) Rule, setting forth the minimum requirements for diversity programs and reporting requirements for the regulated entities.

OMWI's Examinations section oversees and, concurrently with DBR and DER, examines FHFA's regulated entities' D&I programs under FHFA's D&I Examination Program to ensure that the regulated entities execute strategies and goals that comply with the letter and spirit of HERA and the MWI rule.

OMWI performs annual D&I Examinations of each of FHFA's regulated entities, the OF, and CSS, an affiliate of the Enterprises. During FY 2020 FHFA had a target of 10 D&I exams. For FY 2021, OMWI will complete 12 D&I Examinations.

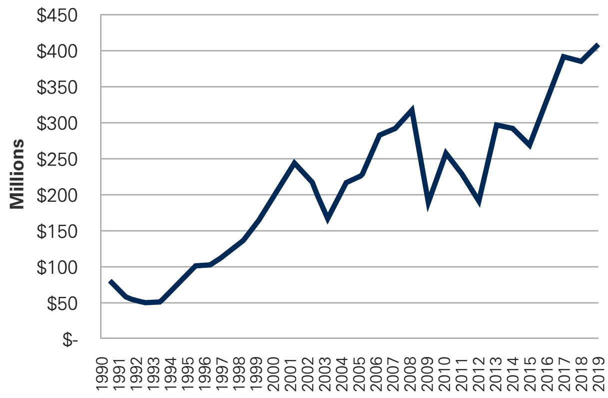
Starting with the 2021 examination cycle, the Agency will begin issuing D&I ROEs separate from the safety and soundness ROEs the Agency currently issues. The D&I ROEs will provide examination results and conclusions as well as performance reporting on the regulated entities' D&I programs.

REGULATED ENTITIES AFFORDABLE HOUSING GOALS AND PROGRAMS

Examples of initiatives and programs of the regulated entities related to expanding access to housing finance, along with information on FHFA's role and any 2020 developments, include:

- **Federal Home Loan Bank Affordable Housing Program:** The Bank Act requires each of the 11 FHLBanks to establish an AHP to provide financing for the construction, purchase, or rehabilitation of affordable housing for very low- and low- or moderate-income households. AHP applicants are FHLBank member financial institutions that support an eligible beneficiary by providing subsidized advances or grants. AHP subsidies must be used either to finance homeownership by households with incomes at or below 80 percent of the AMI, or to finance the purchase, construction, or rehabilitation of rental housing in which at least 20 percent of the units will be occupied by, and affordable to, households with incomes at or below 50 percent of the AMI. Figure 12 shows trends in the funds available (FHLBanks' contributions) to support the AHP since 1990.

Figure 12: FHLBank's Affordable Housing Program Statutory Contributions since 1990



- **FHLBank Housing Goals:** On June 25, 2020, FHFA published a final rule amending the FHLBank housing goals regulation. The new goals become applicable in 2021 with an initial three-year enforcement phase-in period. The final rule removes the $2.5 billion threshold that existed under the previous rule, so that each FHLBank will be subject to the housing goals requirements regardless of its AMA mortgage purchase volume. In addition, the final rule combines the four above-referenced housing goals categories that existed under the previous rule into a single mortgage purchase housing goal, establishes a prospective target percentage for this goal rather than the retrospective market comparison level derived from Home Mortgage Disclosure Act data, and establishes a new small member participation housing goal.

- **FHLBank Community Investment Program (CIP) and CICA Program:** The FHLBanks' support of low-income housing and community development activities also includes the CIP and CICA programs. FHLBank members can finance eligible targeted housing through the CIP, and eligible targeted mixed-use projects and economic development projects through both the CIP and CICA programs. A variety of factors drive FHLBank member demand for these programs, including community needs in FHLBank districts and broader economic dynamics. CIP total advance commitments for both housing and economic projects were almost $3.4 billion in 2019. Total CICA advance commitments were approximately $3.1 billion in 2019.

REGULATED ENTITIES AFFORDABLE HOUSING GOALS AND PROGRAMS *(CONTINUED)*

- **Enterprise Housing Goals:** In February 2018, FHFA issued a final regulation on the housing goals for the Enterprises for 2018 through 2020. In March 2020, the Enterprises submitted their Annual Housing Activity Reports that contained information on their performance on 2019 housing goals. The Enterprises also submitted loan-level data on every mortgage purchased, and FHFA analyzed the data to determine official Enterprise performance figures for 2019. An Enterprise meets a goal if its performance equals or exceeds a pre-set benchmark level or, for single-family goals, the corresponding goal-qualifying share of conventional conforming mortgages originated in the primary mortgage market. FHFA has analyzed Home Mortgage Disclosure Act data to calculate 2019 market performance on the single-family goals. There is no market comparison for the multifamily goals. An Enterprise reaches a multifamily goal if its performance equals or exceeds the pre-set benchmark level. Housing goal results are illustrated in Table 14. As indicated, both Enterprises met all their single-family and multifamily goals for 2019.

  In August 2020, FHFA issued a proposed rule with calendar year 2021 housing goals for the Enterprises. Due to the economic uncertainty related to the COVID-19 pandemic, the Agency proposed benchmarks for calendar year 2021 only, instead of benchmarks for a three-year period. Under the proposed rule, the benchmark levels would remain the same in 2021 as they were for 2018-2020. The deadline for the public to comment on the proposed rule was October 13, 2020. FHFA plans to finalize the rule in the first quarter of FY 2021.

Table 14: Enterprises' Housing Goals and Performance for 2019

Housing Goal/Subgoal Categories	2019 Benchmark	2019 Market Performance	2019 Enterprise Performance[a]		FHFA Preliminary Determination of 2019 Housing Goals Performance	
Single-Family Goals[b]						
Low-income home purchase goal	24%	26.6%	Fannie Mae: Freddie Mac:	27.8% 27.4%	Fannie Mae: Freddie Mac:	MET MET
Very low-income home purchase goal	6%	6.3%	Fannie Mae: Freddie Mac:	6.5% 6.8%	Fannie Mae: Freddie Mac:	MET MET
Low-income areas home purchase subgoal	14%	18.1%	Fannie Mae: Freddie Mac:	19.5% 18.0%	Fannie Mae: Freddie Mac:	MET MET
Low-income refinance goal	21%	24.0%	Fannie Mae: Freddie Mac:	23.8% 22.4%	Fannie Mae: Freddie Mac:	MET MET
Multifamily Goals (Units)[c]						
Low-income multifamily goal	315,000 units	N/A	Fannie Mae: Freddie Mac:	385,763 units 455,451 units	Fannie Mae: Freddie Mac:	MET MET
Very low-income multifamily subgoal	60,000 units	N/A	Fannie Mae: Freddie Mac:	79,649 units 112,773 units	Fannie Mae: Freddie Mac:	MET MET
Small property: low-income subgoal	10,000 units	N/A	Fannie Mae: Freddie Mac:	17,832 units 34,847 units	Fannie Mae: Freddie Mac:	MET MET

[a] Official results as determined by FHFA in August 2020.

[b] Low-income families are those with incomes no greater than 80 percent of area median income (AMI). Very low-income families are those with incomes no greater than 50 percent of AMI. The low-income areas home purchase sub goal includes mortgages on properties in low-income census tracts and loans to borrowers with incomes no greater than AMI in high-minority census tracts. There is also a low-income areas home purchase goal, which includes the sub goal and home purchase mortgages to families with incomes no greater than 100 percent of AMI living in federally declared disaster areas.

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

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

In September 2008, FHFA exercised its authority to place the Enterprises into conservatorships in response to substantial deterioration in the housing markets that severely damaged each Enterprise's financial condition and left both unable to fulfill their missions without government intervention. Initially, the conservatorships focused on reducing the Enterprises' losses, reducing their operational and credit risk, and stabilizing the mortgage and housing markets. Once the Enterprises returned to profitability, FHFA turned its focus to longer-term issues. FHFA establishes the overall strategic direction for the Enterprises in a strategic plan and sets priorities and expectations for the Enterprises and CSS in an annual Scorecard.

Strategic Goal 3 – Additional Selected Accomplishments

FHFA achieved several accomplishments in FY 2020 that contributed to progress in this area. Selected accomplishments for FY 2020 include:

- **<u>Common Securitization Platform/Common Securitization Solutions Performance and Preparation for Post-Conservatorship Transition</u>:** June 3, 2020 marked the first anniversary of CSS initial issuance of Uniform Mortgage-Backed Security (UMBS) on the CSP. Settlements on the platform followed shortly thereafter. Since then, operations have been successful with only a few minor incidents. CSS has continued to improve the CSP through code and other enhancements, which have contributed to reduced operating costs. Successful COOP exercises have affirmed the resilience of both the CSP and CSS' staffing model. Overall, CSS has met the goal of providing an efficient, safe and sound solution for issuance, bond administration, disclosures and tax reporting for the Enterprises' single- and multi-class securitizations.

CSS is planning for the Enterprises' exit from conservatorship, which will require changes in CSS governance and its relationship to the Enterprises. CSS has already restructured its board of managers to include outside members. In addition, CSS has convened working groups that include representatives from the Enterprises to develop and evaluate options for addressing the changes while ensuring safe, sound, and efficient CSP operations.

Performance Goal 3.1: Preserve and Conserve Assets

As conservator, FHFA is responsible by law for preserving and conserving the assets of the Enterprises.

FHFA tracks progress toward Performance Goal 3.1 with five performance measures.

As shown in Table 15, FHFA met the FY 2020 performance targets for three of the measures and did not meet the targets for two of the measures.

Table 15: Performance Goal 3.1 – Performance Measure and Result

Performance Goal 3.1: Preserve and Conserve Assets							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
3.1.1: Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives	MET	MET	MET	MET	MET	95 percent of vacancies filled within 120 days	MET
3.1.2: Provide the Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises for Calendar Year 2020	MET	MET	MET	MET	MET	December 31, 2019	MET
3.1.3: Communicate conservator decisions to the Enterprises' on their administrative expenses for Calendar Year 2020	N/A	MET	MET	MET	MET	January 31, 2020	MET
3.1.4: Assess the Enterprises' performance against current Scorecard objectives	N/A	N/A	MET	MET	NOT MET	Complete quarterly assessment within 30 days of the end of each quarter	NOT MET
3.1.5: Provide timely responses on items submitted to FHFA for conservator decision	N/A	N/A	MET	MET	NOT MET	95 percent of conservatorship decisions requiring Agency approval made and communicated within 90 days of receipt	NOT MET

PERFORMANCE MEASURE 3.1.1

Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives

Board members provide critical leadership to the Enterprises, which is essential for the Enterprises to be effective and achieve their missions. This performance measure tracks the percentage of board vacancies that are filled within 120 days, with a vacancy considered as occurring only if the total number of board members for an Enterprise falls below nine. Neither Enterprise's board experienced a reduction in the number of board members below nine during any of the reporting quarters for FY 2020. The target for Performance Measure 3.1.1 was met.

PERFORMANCE MEASURE 3.1.2

Provide the Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises for Calendar Year 2020

FHFA released the *2020 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* to the Enterprises, CSS, and the public on October 28, 2019. The Scorecard outlines specific conservatorship priorities for the Enterprises and CSS, and furthers the goals outlined in the *2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, which was published in October 2019. Providing the Scorecard prior to the end of the calendar year improved the Enterprises' ability to plan 2020 goals, increased the likelihood of the Enterprises and CSS achieving annual milestones for the year, and contributed to FHFA's sound management of the ongoing conservatorships.

PERFORMANCE MEASURE 3.1.3

Communicate conservator decisions to the Enterprises' on their administrative expenses for Calendar Year 2020

FHFA reviewed and approved the Fannie Mae proposed administrative expenses plan for 2020 in December 2019 and approved the 2020 administrative expenses plan for Freddie Mac in January 2020. FHFA met the FY 2020 target deadline for Performance Measure 3.1.3, fulfilling an important FHFA management responsibility pertaining to the conservatorships.

PERFORMANCE MEASURE 3.1.4

Assess the Enterprises' performance against current Scorecard objectives

The annual Conservatorship Scorecard sets goals for the Enterprises and CSS to implement the conservatorships' strategic plan. FHFA assesses the progress of the Enterprises and CSS against the goals contained in the Scorecard each quarter and provides final year-end ratings in December. In FY 2020, FHFA held quarterly assessment meetings within 30 days of the end of the quarter (target) for the second, third and fourth quarters, but FHFA did not hold an assessment meeting in time to meet its first quarter target. For the first quarter of FY 2020, FHFA agreed to postpone its assessment meeting with Freddie Mac by one day to accommodate a request from Freddie Mac management.

Since the first quarter target was not met, the overall FY 2020 performance target for Measure 3.1.4 was not met. Even though the target for the first quarter was not met, FHFA continued to effectively assess the progress of the Enterprises in meeting the Scorecard objectives.

PERFORMANCE MEASURE 3.1.5

Provide timely responses on items submitted to FHFA for conservator decision

While FHFA, as conservator, authorizes the boards of directors and senior management of the Enterprises to oversee and carry out the day-to-day operations of the companies, FHFA has identified actions of the Enterprises that require an advance decision by the conservator. Over the course of FY 2020, FHFA was able to make and communicate conservatorship decisions within 90 days of receipt for 89.6 percent of requests, which did not meet the 95 percent target. A total of 12 out of 115 (10 percent) conservatorship decisions were not closed within the 90-day target timeframe. The reasons for the delayed decisions varied. Some involved complex issues that required significant discussions with the Enterprises and within FHFA, including in-depth legal analyses, cross-divisional coordination, and consensus-building around policy decisions.

With the adoption of *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* in October of 2019, FHFA will continue to carefully consider any new proposals from the Enterprises and it is highly likely that such reviews will take longer than the established performance target of 90 days. FHFA believes that this is a prudent course of action, given the significant change in the conservatorships' strategic plan. FHFA will be assessing what – if any – changes are appropriate to make to this measure for FY 2021.

Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations

FHFA is focused on introducing additional private capital into the housing finance system to lessen taxpayer risk and reducing the overall risk exposure of the Enterprises. FHFA's objective is to shift risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit. One priority is to have the Enterprises conduct credit risk transfers for their single-family credit guarantee business.

FHFA also oversees limits on the size of the Enterprises' retained portfolios, which expose them to significant unnecessary risks. Another risk reduction priority for FHFA is overseeing appropriate Enterprise counterparty requirements to ensure that they fulfill their intended role even in adverse market conditions.

As shown in Table 16, FHFA demonstrated progress toward Performance Goal 3.2 during FY 2020, meeting the annual targets for all three of the measures.

Table 16: Performance Goal 3.2 – Performance Measure and Result

Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
3.2.1: Oversee the retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target	MET	MET	MET	MET	MET	Retained Portfolio balances were below the PSPA requirement of $250 billion at each Enterprise	MET
3.2.2: Require the Enterprises to execute single-family mortgage credit risk-sharing transactions	MET	MET	MET	MET	MET	Transfer a meaningful portion of credit risk on at least 90 percent of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for credit risk transfer, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	MET
3.2.3: Require the Enterprises to execute multifamily mortgage credit risk-sharing transactions	N/A	N/A	MET	MET	MET	Transfer a meaningful portion of the credit risk on newly acquired multifamily mortgages, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	MET

PERFORMANCE MEASURE 3.2.1

Oversee the retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target

Before the mortgage crisis, the Enterprises retained portfolios exposed them to significant and unnecessary credit, asset liquidity, and interest rate risks. During conservatorship, each Enterprise has been required to reduce the overall size of its retained portfolio and to limit its ongoing use of the portfolio to support core activities of its single-family and multifamily businesses. Each Enterprise has a PSPA agreement with Treasury that requires it to maintain its portfolio balances under $250 billion. FHFA directed the Enterprises to submit plans to reduce their retained portfolio assets to meet the PSPA cap targets. As of September 30, 2020, Fannie Mae's retained portfolio balance was $174.5 billion, and Freddie Mac's was $203.9 billion. Measure 3.2.1 was met.

PERFORMANCE MEASURE 3.2.2

Require the Enterprises to execute single-family mortgage credit risk-sharing transactions

The measure tracks the percentage of unpaid principal balance (UPB) of newly acquired single-family mortgages in loan categories targeted for CRT at the Enterprises. The loan categories are subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations. Under the 2019 Scorecard, FHFA required the Enterprises to transfer a meaningful amount of credit risk on at least 90 percent of the UPB of newly acquired single-family mortgages in loan categories targeted for CRT. FHFA determined that both Enterprises met the 90 percent target under the 2019 Scorecard.

PERFORMANCE MEASURE 3.2.3

Require the Enterprises to execute multifamily mortgage credit risk-sharing transactions

Under the 2019 Scorecard, FHFA required the Enterprises to transfer a meaningful portion of the credit risk on newly acquired multifamily mortgages, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations. During FY 2020, both Fannie Mae and Freddie Mac met the Scorecard targets for executing multifamily credit risk transfer transactions.

Performance Goal 3.3: Preserve and Conserve Assets

Building a new infrastructure for the securitization functions of the Enterprises was an important priority for FHFA. The goal of this initiative was to bring additional liquidity and efficiency to the market by combining the separate Fannie Mae and Freddie Mac "To-Be-Announced" (TBA) MBS markets into one. This included work to develop the CSP and a UMBS.

The CSP focused on a new shared system being operational for existing Enterprise single-family securitization activities, and adaptable for use by additional market participants in the future. The UMBS should increase the overall liquidity of the secondary mortgage market and reduce the trading value disparities between Fannie Mae and Freddie Mac securities.

All measures under this performance goal have previously been achieved. FHFA had three measures for implementing the UMBS and the CSP and issuing progress reports on the initiative. The UMBS began trading in March 2019. Implementation of Release 2 of the CSP, the Enterprises' initial issuance of UMBS through the CSP, and Settlement of UMBS TBA trades commenced in June 2019. Please see sidebar, "Uniform Mortgage Backed Securities Transition and Monitoring" for updates on the initiative.

UNIFORM MORTGAGE BACKED SECURITIES TRANSITION AND MONITORING

Since the UMBS launched on March 12, 2019, the forward TBA market of the Enterprises' new common security for fixed-rate mortgages has performed well despite the challenges presented by the COVID-19 crisis. FHFA has supported UMBS market functioning by enforcing the UMBS Final Rule,[31] monitoring the alignment and projected alignment of cash flows to investors from each Enterprise's UMBS, and aligning Enterprise programs, policies, and practices where they might reasonably be expected to affect that alignment. To that end and to provide transparency to market participants, FHFA has published quarterly Prepayment Monitoring Reports and issued a request for input (RFI) in November 2019 concerning the Enterprises' pooling of loans into UMBS.

The Prepayment Monitoring Reports[32] document that despite the considerable changes in the interest rate environment and an ensuing wave of mortgage refinancing, the prepayment speeds of cohorts of the Enterprises' UMBS have remained generally well-aligned. In addition, the fastest-paying quartiles of those cohorts have remained well-aligned for origination years after 2016. Misalignments between fastest-paying quartiles of some earlier cohorts were caused by differences in the Enterprises' pooling practices prior to 2017, especially with respect to the creation of large multi-lender pools.

Because differences in pooling practices directly affect the alignment of prepayment speeds, FHFA issued an RFI in the Federal Register. Pooling policies are important because they may affect the distribution of prepayments (for example, from mortgage refinances, loan payoffs, or other causes), which in turn may affect the value of MBS to investors and therefore mortgage interest rates to consumers. Differences across the Enterprises in their policies for the formation of larger multi-lender pools, single-lender pools, smaller pools, and specified pools can lead to differences in the cash flows, pricing, and performance of their MBS, with potentially adverse consequences for the fungibility of UMBS. FHFA also invited public input about other policies and practices that might affect UMBS fungibility, including the Enterprises' oversight of seller/servicer refinance policies and their monitoring of seller/servicer-specific UMBS prepayment speeds.

In response to public input related to the RFI, FHFA is working with Enterprises to align their practices for monitoring, identifying, and remediating seller/servicer-specific UMBS prepayment speeds and other seller servicer practices that might affect the UMBS market. Such changes should enhance the alignment of prepayment speeds, and therefore UMBS fungibility, going forward.

31 https://www.fhfa.gov/SupervisionRegulation/Rules/RuleDocuments/UMBS%20Final%20Rule%20for%20Web.pdf.

32 https://www.fhfa.gov/AboutUs/reportsplans/Pages/All-Reports.aspx.

Resource Management: Supporting the Effective Operations of the Agency

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

Resource Management – Additional Selected Accomplishments

FHFA achieved several accomplishments in FY 2020 that contributed to progress in this area. One selected accomplishment for FY 2020 was receiving a 12th consecutive award for accountability reporting.

- **Certificate of Excellence in Accountability Reporting (CEAR) Award**: The Association of Government Accountants (an independent, nonprofit, non-governmental organization) awarded FHFA the CEAR Award for its FY 2019 PAR. This is the 12th consecutive CEAR award FHFA has received. The CEAR award is presented to agencies that have demonstrated excellence in their performance and accountability reporting. Only agencies that have received unmodified audit opinions on their financial statements from an independent auditor are eligible for the award.

FHFA monitored five performance measures to track progress toward Resource Management objectives in FY 2020, as established in the FY 2020 Annual Performance Plan. As shown in Table 17, FHFA successfully met the performance targets for three of the Resource Management performance measures and did not meet the target for one of the measures. Data for measure RM5 will be available in CY 2021.

Table 17: Resource Management – Performance Measures and Results

RESOURCE MANAGEMENT: SUPPORTING THE EFFECTIVE OPERATIONS OF THE AGENCY							
Performance Measure	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Target	FY 2020 Result
RM1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses[33]	MET	MET	MET	MET	MET	100 percent of the time	MET
RM2: Ensure FHFA's FISMA audit identifies no significant deficiencies	MET	MET	MET	MET	MET	100 percent of the time	MET
RM3: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	N/A	N/A	N/A	N/A	MET	99.5 percent of the time	MET
RM4: Increase the dollar amount of FHFA contracts awarded to minority-and women-owned businesses consistent with legal standards	N/A	MET	MET	MET	MET	Total dollar amount of contracts greater than the five-year average	NOT MET
RM5: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"	N/A	N/A	N/A	N/A	MET	Positive responses equal to or higher than both the small agency and government-wide averages	DATA NOT AVAILABLE

33 Prior to FY 2020, RM1 and RM2 were reported as a combined measure.

PERFORMANCE MEASURE RM 1

Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses

An unmodified opinion with no material weaknesses is the best possible result for an audit. Achieving this level of performance indicates that proper accounting controls are being used, proper application of accounting standards are being followed, and the financial statements are reliable, accurate, and complete in all material respects. FY 2020 is the 12th consecutive year that FHFA has received an unmodified (clean) opinion.

PERFORMANCE MEASURE RM 2

Ensure FHFA's FISMA audit identifies no significant deficiencies

The purpose of this measure is to ensure that effective security and privacy controls are in place to secure FHFA's information and data systems. FISMA requires that federal agencies have an annual independent evaluation performed of their Information Security Programs and practices to determine their effectiveness. The 2020 FISMA audit conducted by OIG of FHFA's Information Security Programs identified no material weaknesses or significant deficiencies. This same positive finding about the effectiveness of FHFA's Information Security Programs resulted from FISMA audits performed from 2015-2019.

PERFORMANCE MEASURE RM 3

Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff

FHFA's information technology (IT) systems support all critical mission functions. The purpose of this measure is to monitor system reliability or stability by tracking the percentage of time that a production IT system is successfully operational. For FY 2020, system availability was 99.9 percent, exceeding the performance target of 99.5 percent.

PERFORMANCE MEASURE RM 4

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

Section 342 of the Dodd-Frank Act requires the Agency to promote diversity and ensure inclusion in its procurement and contracting. This measure illustrates the progress FHFA has made in providing minorities and women – and the businesses they own – opportunities to compete for Agency contracts. FHFA did not meet the FY 2020 goal of achieving a total dollar amount of contracts with minority- and women-owned businesses (MWOBs) greater than the five-year average. For FY 2020, the Agency obligated $9.58 million in MWOB contracts compared with the five-year average of $12.21 million from FY 2015 to FY 2019. The Agency was unable to meet its goal because of the severe constraints created by the closure of the FHFA offices due to the COVID-19 pandemic in the second quarter of FY 2020. The closure of the offices has resulted in adverse effects on the demand for goods and services, including those provided by MWOBs.

Figure 13: Obligated FHFA Amounts to MWOB Contracts

PERFORMANCE MEASURE RM 5

Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals."[34]

The Federal Employees Viewpoint Survey (FEVS) is conducted on an annual basis to measure employees' perceptions of many work issues. The results provide Agency leaders insight into areas where improvements have been made, as well as areas where improvements are needed. Tracking FHFA's response to the question of the Agency workforce having the needed job-relevant knowledge and skills necessary to accomplish organizational goals provides a high-level evaluation of core human resources programs such as recruitment, performance management, and training and development. For FY 2020, the performance target for this measure was to achieve a positive response rate higher than both the small-agency and government-wide averages.

[34] Due to COVID-19, FHFA will receive the 2020 FEVS data in CY 2021.

Changed and Dropped Performance Measures

Table 18: FY 2019 Performance Measures Changed in FY 2020		
Resource Management: Supporting the Effective Operations of the Agency		
Language in FY 2019	**Language in FY 2020**	**Why Changed**
RM5: Staff responses to the Federal Employee Viewpoint Survey reflect that "the [Agency] workforce has the job-related knowledge and skills necessary to accomplish organizational goals." Target: Positive responses higher than government-wide average	Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals." Target: Positive responses equal to or higher than both the small agency and government- wide averages	Measure language tracks to the FEVS update in wording. For the target, the Agency would also like to benchmark itself against similar-sized agencies, in addition to the government-wide results.
Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships		
Language in FY 2019	**Language in FY 2020**	**Why Changed**
3.2.1: Oversee reduction in retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target of $250 billion Target: December 31, 2018	Oversee the retained portfolios consistent with the Senior Preferred Stock Purchase Agreement's target Target: Retained Portfolio balances were below the PSPA requirement of $250 billion at each Enterprise	The PSPA agreement with Treasury that requires each Enterprise to reduce its portfolio to no more than $250 billion by December 31, 2018. As of December 31, 2018, Fannie Mae's retained portfolio balance was $179.1 billion, and Freddie Mac's was $218.1 billion. Therefore, the Agency will now monitor to ensure the portfolio balances do not exceed $250 billion.

Table 19: FY 2019 Performance Measures Dropped in FY 2020			
Strategic Goal 1: Manage the Enterprises' Ongoing Conservatorships			
Strategic Goal/Performance Goal	**FY 2019 Target**	**FY 2019 Results**	**Why Dropped**
Strategic Goal 1: Manage the Enterprises' Ongoing Conservatorships			
1.2.1: Issue guidance to the FHLBanks and Enterprises on operational risk management	FY 2019	**MET**	FHFA issued four advisory bulletins in FY 2019: AB 2019-01; AB 2019-02; AB 2019-03, and AB 2019-04.
Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance			
Strategic Goal/Performance Goal	**FY 2019 Target**	**FY 2019 Results**	**Why Dropped**
Performance Goal 2.1: Ensure liquidity in mortgage markets			
2.2.2: Continue conducting the quarterly National Survey of Mortgage Originations	FY 2019	**MET**	FHFA released the first NSMO dataset for public use on November 8, 2018, available on FHFA's website at https://www.fhfa.gov/nsmodata.
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers			
2.3.2: Monitor the Enterprises' performance in Duty to Serve initiatives related to manufactured housing, affordable housing preservation, and rural markets	FY 2019	**MET**	FHFA monitored the Enterprises' quarterly progress in implementing the Plans throughout FY 2019, meeting the target for Performance Measure 2.3.2.
2.3.3: Establish a Mortgage Translations Clearinghouse for borrowers with limited English proficiency	FY 2019	**MET**	The first phase of the clearinghouse was launched on October 15, 2018.
Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships			
Strategic Goal/Performance Goal	**FY 2019 Target**	**FY 2019 Results**	**Why Dropped**
Performance Goal 3.3: Build, implement, and operate a new single-family securitization infrastructure and implement the Single Security Initiative			
3.3.1: Issue a progress report on the status of the Single Security Initiative and the Common Securitization Platform	FY 2019	**MET**	FHFA published the report on FHFA's website on November 13, 2018.
3.3.2: The Enterprises and Common Securitization Solutions implement Release 2 of the Common Securitization Platform and begin issuing Uniform Mortgage-Backed Securities	FY 2019	**MET**	UMBS successfully launched on June 3, 2019.

FINANCIAL SECTION

In This Chapter

Message from the Chief Financial Officer

I am proud to report that FHFA received an unmodified audit opinion on its FY 2020 financial statements from the Government Accountability Office (GAO). FHFA has received an unmodified audit opinion every year since its inception in July 2008.

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

Fiscal Year 2020 was a year no one will forget. The COVID-19 pandemic altered the way FHFA operated as our entire workforce moved to mandatory telework during the last six months of the fiscal year. Throughout this unprecedented change, and the challenges it presented, our employees quickly adapted to the new work environment and the Agency has continued to operate effectively and efficiently, remaining a responsible steward of its resources.

FHFA published its new Strategic Plan for fiscal years 2021-2024 in early October cementing the Director's direction and vision for the Agency. The Agency is committed to responsibly ending the conservatorships of the Enterprises and ensuring the regulated entities remain safe and sound through world-class supervision. The Agency will effectively deploy its resources to achieve these important goals.

I am very proud of our unblemished record of obtaining unmodified (clean) audit opinions on our financial statements. Clean audits represent a sustained Agency-wide focus on the effective management of our financial resources which strengthens the public's confidence in FHFA's important mission.

Sincerely,

MARK KINSEY
Chief Financial Officer
November 16, 2020

Independent Auditor's Report

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

Independent Auditor's Report

To the Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2020 and 2019 financial statements of the Federal Housing Finance Agency (FHFA), we found

- FHFA's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, 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, 2020; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

In accordance with the Housing and Economic Recovery Act of 2008 (HERA),[3] we have audited FHFA's financial statements. FHFA's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited FHFA's internal control over financial reporting as of September 30, 2020, 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.

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

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

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

Independent Auditor's Report

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) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2020, 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 involves performing procedures to obtain evidence about whether a material weakness exists.[4] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FHFA's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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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.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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, 2020, and 2019, 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 2020 and 2019 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 $191 billion in direct financial support. Following criteria in Statement of Federal Financial Accounting Standards No. 47 (SFFAS 47), *Reporting Entity*, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and

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

Independent Auditor's Report

activities of Fannie Mae and Freddie Mac would not be consolidated into federal reporting entity financial statements. However, the values of the investment in the entities and related activities are presented in Treasury's financial statements.

In making this determination, OMB and Treasury concluded that the entities are owned or controlled by the federal government as a result of regulatory actions, such as organizations in receivership or conservatorship, or other federal government intervention actions. Under such regulatory or other intervention actions, the relationship with the federal government is not expected to be permanent, and these entities are classified as disclosure entities when considering their characteristics taken as a whole.[6] FHFA management concurred with this conclusion, and FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2020 and 2019 financial statements. However, as Fannie Mae and Freddie Mac are considered to be disclosure entities, FHFA disclosed certain financial and other information about the entities in the notes to its financial statements. Our opinion on FHFA's financial statements is not modified with respect to this matter.

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, 2020, based on criteria established under FMFIA.

During our fiscal year 2020 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 FHFA 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 the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

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

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

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 our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 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.

Independent Auditor's Report

Agency Comments

In commenting on a draft of this report, FHFA stated that it was pleased to accept the audit conclusions and that it will continue to work to enhance its internal control and ensure the reliability of its financial reporting, the soundness of its operations, and public confidence in its mission. The complete text of FHFA's response is reproduced in appendix II.

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

November 10, 2020

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

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

Management's Report on Internal Control over Financial Reporting

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

FHFA management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA management evaluated the effectiveness of FHFA's internal control over financial reporting as of September 30, 2020, 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, 2020, FHFA's internal control over financial reporting was effective.

Mark A. Calabria
Director

Mark Kinsey
Chief Financial Officer

November 10, 2020

Appendix II: FHFA Response to Auditor's Report

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

November 10, 2020

Ms. Cheryl E. Clark
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Clark:

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 2020 and 2019 Financial Statements (GAO-21-201R). This report presents GAO's opinion on the financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2020 and 2019. The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2020, 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 2020 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal control 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.

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

Sincerely,

Mark A. Calabria
Director

Federal Housing Finance Agency

Consolidated Balance Sheets

As of September 30, 2020 and 2019

(In Thousands)

	2020		2019	
Assets:				
Intragovernmental				
Fund Balance With Treasury - Note 2	$	16,328	$	15,825
Investments - Note 3		98,300		71,372
Advances and Prepaid Charges		635		657
Total Intragovernmental		115,263		87,854
Accounts Receivable - Note 4		4		53
Advances and Prepaid Charges		2,931		2,195
Property, Equipment, and Software, Net - Note 5		15,672		19,166
Total Assets	**$**	**133,870**	**$**	**109,268**
Liabilities:				
Intragovernmental				
Accounts Payable	$	795	$	666
Other Intragovernmental Liabilities - Note 7		3,493		3,164
Total Intragovernmental		4,288		3,830
Accounts Payable		8,171		10,895
Unfunded Leave		18,276		14,067
FECA Actuarial Liability		223		320
Deferred Lease Liabilities		20,107		21,923
Other Liabilities - Note 7		7,696		6,467
Total Liabilities - Note 6	$	58,761		57,502
Net Position:				
Cumulative Results of Operations	$	75,109		51,766
Total Net Position	$	75,109	$	51,766
Total Liabilities and Net Position	**$**	**133,870**	**$**	**109,268**

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, 2020 and 2019

(In Thousands)

		2020		2019
Gross Program Costs by Strategic Goal - Note 10:				
Safety and Soundness	$	161,933	$	157,904
Liquidity, Stability, and Access	$	61,866	$	53,367
Conservatorship	$	72,819	$	66,583
Gross Program Costs	$	296,618	$	277,854
Less: Total Earned Revenue not Attributable to Strategic Goals		(314,010)		(277,444)
Net Cost of Operations	**$**	**(17,392)**	**$**	**410**

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, 2020 and 2019

(In Thousands)

	2020	2019
Cumulative Results of Operations:		
Beginning Balance	$ 51,766	$ 43,505
Other Financing Sources:		
Imputed Financing Sources	5,951	8,671
Total Financing Sources	5,951	8,671
Net Cost of Operations	17,392	(410)
Net Change	23,343	8,261
Cumulative Results of Operations	**$ 75,109**	**$ 51,766**
Net Position	**$ 75,109**	**$ 51,766**

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, 2020 and 2019

(In Thousands)

		2020		2019
Budgetary Resources:				
Unobligated Balance From Prior Year Budget Authority, Net - Note 11		39,989		32,968
Appropriations - Note 1.D		312,584		276,570
Spending Authority From Offsetting Collections		47,175		46,483
Total Budgetary Resources	**$**	**399,748**	**$**	**356,021**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Total)	$	343,753	$	321,704
Unobligated Balance, End of Year:				
Exempt from Apportionment, Unexpired Accounts		55,995		34,317
Unexpired Unobligated Balance, End of Year		55,995		34,317
Unobligated Balance, End of Year, Total		55,995		34,317
Total Budgetary Resources	**$**	**399,748**	**$**	**356,021**
Outlays, Net:				
Outlays, Net (Total)		285,152		261,065
Distributed Offsetting Receipts		(312,584)		(276,570)
Agency Outlays, Net	**$**	**(27,432)**	**$**	**(15,505)**

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

Federal Housing Finance Agency

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

The Federal Housing Finance Agency (FHFA) was established on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). FHFA is an independent agency in the Executive branch empowered with supervisory and regulatory oversight of the 11 Federal Home Loan Banks (FHLBanks), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) (the FHLBanks and Fannie Mae and Freddie Mac referred to as regulated entities), and the Office of Finance. FHFA is responsible for ensuring that each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out its housing and community development finance missions.

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

Under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac under conservatorships on September 6, 2008 to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as Conservator, assumed the power of stockholders, boards, and management. FHFA has assigned to Fannie Mae's and Freddie Mac's boards and management 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 conservatorships under FHFA, OMB determined that the assets, liabilities and activities of the companies would not be included in the financial statements of the federal government. OMB and the Treasury Department concluded that Fannie Mae and Freddie Mac did not meet the criteria for a federal entity contained in OMB Circular A-136, Financial Reporting Requirements, and the Statement of Federal Financial Accounting Concepts 2, Entity and Display. This determination was made because Fannie Mae and Freddie Mac were not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," because of the nature of FHFA's conservatorships over Fannie Mae and Freddie Mac, and because the federal government's ownership and control of the entities were considered to be temporary. OMB continued to hold this view in the President's budget submissions to Congress. Consequently, the assets, liabilities, and activities of Fannie Mae and Freddie Mac were not consolidated into FHFA's financial statements. However, the Treasury Department recorded the value of the federal government's investments in Fannie Mae and Freddie Mac, and related activity in its financial statements. Under the Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity, which became effective for FY 2018, Fannie Mae and Freddie Mac will continue to not be consolidated in FHFA's financial statements and are included as disclosure entities.

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

The August 17, 2012 amendment to the SPSPAs ("Third Amendment") changed the dividend owed to the Treasury Department from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance. Under the Third Amendment, Fannie Mae's and Freddie Mac's net income/profits above an established threshold are distributed quarterly to the Treasury Department as dividends. The current threshold was established on September 30, 2019, by letter agreements between the Treasury Department and Fannie Mae and Freddie Mac, acting through FHFA as their Conservator. The letter agreements amended Fannie Mae's and Freddie Mac's respective Certificates of Designation, permitting Fannie Mae and Freddie Mac to retain earnings beyond the $3 billion capital reserves previously allowed. Fannie Mae and Freddie Mac are now permitted to maintain capital reserves of $25 billion and $20 billion, respectively.

On March 27, 2019, a Presidential Memorandum was issued directing the Treasury Department to develop a plan to, among other objectives, end the conservatorships of Fannie Mae and Freddie Mac and reform the nation's housing finance system. On September 5, 2019, Treasury released its Housing Reform Plan, which includes recommendations for legislative and administrative reforms to achieve the goals established in the Presidential Memorandum. FHFA, as an independent agency, is evaluating the Treasury Department's Plan and will work with Congress and the Treasury Department to achieve the common goals of ending the conservatorships and reforming the nation's housing finance system.

B. BASIS OF PRESENTATION

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

C. BASIS OF ACCOUNTING

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are generally recognized when incurred, without regard to receipt or payment of cash. These principles differ from budgetary accounting and reporting principles, which are used for preparing the Statement of Budgetary Resources. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other assets and liabilities. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds. FHFA's financial statements conform with U.S. GAAP for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board. The Federal Accounting Standards Advisory Board is recognized by the American Institute of Certified Public Accountants as the body designated to establish U.S. GAAP for federal reporting entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

D. REVENUES

Although our assessments are reported as Appropriations in the Combined Statement of Budgetary Resources, FHFA is not subject to appropriations. Operating revenues of FHFA are obtained through assessments of the regulated entities. The head of the Agency approved the annual budget for FY 2020 and FY 2019 in August 2019 and 2018, respectively. By law, FHFA is required to charge semi-annual assessments to the entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the entities, plus amounts determined by the head of the Agency to be necessary for maintaining a working capital fund.

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

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

E. USE OF ESTIMATES

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

F. FUND BALANCE WITH TREASURY

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

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

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

G. INVESTMENTS

FHFA has the authority to invest in Treasury Department securities with maturities suitable to FHFA's needs. FHFA invests solely in Treasury Department securities. During FY 2020 and FY 2019, FHFA invested in one-day certificates issued by the Treasury Department.

H. ACCOUNTS RECEIVABLE

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

I. PROPERTY, EQUIPMENT, AND SOFTWARE, NET

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

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

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Applicable standard governmental guidelines regulate the disposal and convertibility of Agency property and equipment.

The useful life classifications for capitalized assets are as follows:

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

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

J. ADVANCES AND PREPAID CHARGES

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

K. LIABILITIES

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

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

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

The funds remain on the books for two years and three months. Funded FECA liability represents the amount FHFA is to reimburse DOL for claims paid to FHFA employees.

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

Deferred lease liabilities consist of deferred rent and the Constitution Center tenant allowance. Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight line method. This determination and recording of deferred rent is applicable to the lease agreements on the properties with non-cancellable lease terms at 400 7th Street SW Constitution Center (See Note 8. Leases).

FHFA entered into a 60 month capital lease for copiers during FY 2018 (See Note. 8 Leases).

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

L. EMPLOYEE LEAVE AND BENEFITS

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

Health Benefits and Life Insurance: FHFA, through programs established for all agencies by the federal government, offers its employees health and life insurance coverage through the Federal Employees Health Benefits Program (FEHB) and Federal Employees Group Life Insurance Program. The cost of each is shared by FHFA and its employees. FHFA pays 90 percent of the FEHB premium. In addition, all employees have 1.45 percent of adjusted gross earnings withheld to pay for Medicare coverage. High-earning employees pay an additional Medicare tax. The Additional Medicare Tax is calculated as 0.9 percent of adjusted gross earnings over the threshold regardless of their filing status.

M. RETIREMENT PLANS

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS, CSRS Offset, FERS, FERS-Revised Annuity Employee (RAE), or FERS-Further Revised Annuity Employee (FRAE).

FERS, RAE, and FRAE are provided under calculations for both regular employees as well as law enforcement employees in the OIG. FHFA remits the employer's share of the required contribution, which is 7.0 percent for CSRS and CSRS Offset, 16.0 percent for FERS, 33.4 percent for FERS Law Enforcement Officer (LEO), 14.2 percent for FERS-RAE and FERS-FRAE, and 31.6 percent for FERS-RAE LEO and FERS-FRAE LEO. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-

FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. FERS employees are automatically enrolled in TSP and 3.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security. The 2020 maximum taxable wage base for Social Security is $137,700.

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

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

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

N. CONTINGENCIES

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

O. CLASSIFIED ACTIVITIES

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

P. INTER-ENTITY COSTS

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

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The unobligated and obligated balances reported in the FBWT may not equal related amounts reported on the Combined Statements of Budgetary Resources. The unobligated and obligated balances reported on the Combined Statements of Budgetary Resources are supported by the FBWT, as well as other budgetary resources that do not affect the FBWT (i.e., unfilled customer orders). The funds in the working capital fund were fully invested during FY 2020 and FY 2019. FBWT account balances as of September 30, 2020 and 2019 were as follows (dollars in thousands):

	2020	2019
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 55,995	$ 34,317
Obligated Balance Not Yet Disbursed	58,633	52,880
Investments	(98,300)	(71,372)
Total	**$ 16,328**	**$ 15,825**

Note 3. Investments

Investments as of September 30, 2020 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market Based	$ 98,300	$ -	$ -	$ 98,300	$ 98,300

Investments as of September 30, 2019 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market Based	$ 71,372	$ -	$ -	$ 71,372	$ 71,372

Non-marketable, market-based securities are Treasury Department 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 Treasury Department. There were no amortized premiums/discounts on investments as of September 30, 2020 or 2019. Interest earned on investments was $1.2 million and $2.8 million for FY 2020 and FY 2019, respectively.

Note 4. Accounts Receivable

Accounts Receivable balances as of September 30, 2020 and 2019 were as follows (dollars in thousands):

	2020		2019	
Intragovernmental				
Accounts Receivable	$	-	$	-
Total Intragovernmental Accounts Receivable	**$**	**-**	**$**	**-**
With the Public				
Accounts Receivable	$	8	$	57
Allowance for Uncollectible Accounts Receivable	$	(4)	$	(4)
Total Public Accounts Receivable	**$**	**4**	**$**	**53**
Total Accounts Receivable	**$**	**4**	**$**	**53**

Note 5. Property, Equipment, and Software, Net

Schedule of Property, Equipment, and Software as of September 30, 2020 (dollars in thousands):

Major Class	Acquisition Cost		Accumulated Amortization/ Depreciation		Net Book Value	
Equipment	$	22,655	$	21,787	$	868
Leasehold Improvements		34,730		20,063		14,667
Internal-Use Software		1,728		1,728		-
Machinery and Equipment Under Capital Lease		274		137		137
Construction-in-Progress		-		-		-
Total	**$**	**59,387**	**$**	**43,715**	**$**	**15,672**

Schedule of Property, Equipment, and Software as of September 30, 2019 (dollars in thousands):

Major Class	Acquisition Cost		Accumulated Amortization/ Depreciation		Net Book Value	
Equipment	$	26,179	$	24,272	$	1,907
Leasehold Improvements		34,730		17,716		17,014
Internal-Use Software		1,728		1,728		-
Machinery and Equipment Under Capital Lease		274		83		191
Construction-in-Progress		54		-		54
Total	**$**	**62,965**	**$**	**43,799**	**$**	**19,166**

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

Note 6. Liabilities Covered and Not Covered by Budgetary Resources

There are not any liabilities under the category of not requiring Budgetary Resources. Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2020 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 795	$ -	$ 795
Other Intragovernmental Liabilities	3,493	-	3,493
Total Intragovernmental Liabilities	**$ 4,288**	**$ -**	**$ 4,288**
Accounts Payable	$ 8,171	$ -	$ 8,171
Unfunded Leave	-	18,276	18,276
FECA Actuarial Liabilities	-	223	223
Deferred Lease Liabilities	-	20,107	20,107
Other Liabilities	7,696	-	7,696
Total Public Liabilities	**$ 15,867**	**$ 38,606**	**$ 54,473**
Total Liabilities	**$ 20,155**	**$ 38,606**	**$ 58,761**

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2019 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 666	$ -	$ 666
Other Intragovernmental Liabilities	3,164	-	3,164
Total Intragovernmental Liabilities	**$ 3,830**	**$ -**	**$ 3,830**
Accounts Payable	$ 10,895	$ -	$ 10,895
Unfunded Leave	-	14,067	14,067
FECA Actuarial Liabilities	-	320	320
Deferred Lease Liabilities	-	21,923	21,923
Other Liabilities	6,467	-	6,467
Total Public Liabilities	**$ 17,362**	**$ 36,310**	**$ 53,672**
Total Liabilities	**$ 21,192**	**$ 36,310**	**$ 57,502**

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, advances and prepayments, withholdings payable, employee related refunds due, and capital lease liability. 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, 2020 and September 30, 2019 consist of the following (dollars in thousands):

	2020	2019
Intragovernmental Liabilities		
Funded FECA Liability	$ 15	$ 37
Unemployment Insurance Liability	13	-
Payroll Benefits Payable	2,045	1,516
Advances and Prepayments	1,420	1,611
Total Intragovernmental Other Liabilities	**$ 3,493**	**$ 3,164**
With the Public		
Employer Benefit Contributions	$ 637	$ 795
Withholdings Payable	-	-
Accrued Funded Payroll	6,919	5,478
Employee Related Refunds Due	3	3
Capital Lease Liability	137	191
Total Public Other Liabilities	**$ 7,696**	**$ 6,467**

Note 8. Leases

Operating Leases

NON-FEDERAL LEASES:

400 7th Street SW – Constitution Center

FHFA entered into a lease for office space at 400 7th Street SW Constitution Center on January 31, 2011. FHFA took occupancy in January 2012. FHFA does not have the right to terminate the lease for the convenience of the government. The lease terms of 400 7th Street SW expire on January 31, 2027. In addition, the lease stipulates that FHFA shall pay additional rent for its share of increases in the operating expenses and real estate property taxes.

FEDERAL LEASES:

300 N Los Angeles Street

FHFA OIG entered into an Occupancy Agreement (OA) with the General Services Administration (GSA) for office space at 300 N Los Angeles Street, Los Angeles, CA commencing on May 13, 2013. FHFA OIG took occupancy on June 1, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 300 N Los Angeles Street expired on April 30, 2018. FHFA OIG extended the term for 10 years commencing on May 1, 2018. The OA terms of 300 N Los Angeles Street expire on April 30, 2028.

501 E Polk Street

FHFA OIG entered into an OA with GSA for office space at 501 E Polk Street, Tampa, FL commencing on August 13, 2013. FHFA OIG took occupancy on August 10, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 501 E Polk Street expire on August 4, 2028.

50 Walnut Street

FHFA OIG entered into an OA with GSA for office space at 50 Walnut Street, Newark, NJ commencing on June 1, 2019. FHFA OIG took occupancy on May 29, 2019. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 50 Walnut Street expire on April 30, 2022.

970 Broad Street – Peter W. Rodino Federal Building

FHFA OIG entered into an OA with GSA for office space at 970 Broad Street, Newark, NJ commencing on August 29, 2019. It is projected that FHFA OIG will take occupancy on or before October 1, 2020. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 970 Broad Street expire on February 28, 2030.

233 N Michigan Avenue – Two Illinois Center

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

230 S Dearborn Street – JCK Federal Building

FHFA OIG entered into an OA with GSA for office space at 230 S Dearborn Street, Chicago, IL commencing on March 11, 2020. It is projected that FHFA OIG will take occupancy on or before April 30, 2021. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 230 S Dearborn Street expire on November 30, 2030.

230 S Dearborn Street – JCK Federal Building-Temporary Space

FHFA OIG entered into an OA with GSA for office space at 230 S Dearborn Street Suite 3920, Chicago, IL commencing on November 1, 2020. It is projected that FHFA OIG will take occupancy on November 1, 2020. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 230 S Dearborn Street expire on April 30, 2021.

650 Capitol Mall

FHFA OIG entered into an OA with GSA for office space at 650 Capitol Mall, Sacramento, CA commencing on February 23, 2015. FHFA OIG took occupancy on March 1, 2015. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 650 Capitol Mall expire on February 28, 2030.

111 S 10th Street

FHFA OIG entered into an OA with GSA for office space at 111 S 10th Street, St. Louis, MO commencing on October 1, 2016. FHFA OIG took occupancy on February 1, 2017. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice at any point after the first 12 months of occupancy. The OA terms of 111 S 10th Street expire on January 31, 2027.

101 E Park Blvd

FHFA OIG entered into an OA with GSA for office space at 101 E Park Blvd, Plano, TX commencing on October 11, 2017. FHFA OIG took occupancy on October 11, 2017. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice. The OA terms of 101 E Park Blvd expire on August 17, 2030.

The federal leases 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) are as follows (dollars in thousands):

Fiscal Year		Amount
2021	$	18,329
2022		18,694
2023		19,070
2024		19,452
2025		19,841
After 5 Years		27,029
Total Future Payments	**$**	**122,415**

Capital Lease

FHFA entered into a non-federal capital lease for 28 copiers located at 400 7th Street SW - Constitution Center on February 1, 2018. The leased equipment is amortized on a straight line basis over five years. The lease was fully funded at its inception. There is no salvage value and the copiers will be returned to the vendor upon termination of the lease. The following is a schedule showing the future minimum lease payments under capital lease by years and the present value of the minimum lease payments as of September 30, 2020 (dollars in thousands). The interest rate related to the lease obligation is 2.5 percent and the maturity date is February 2023.

		2020		2019
Summary of Assets Under Capital Lease				
Machinery and Equipment (Copiers)	$	274	$	274
Accumulated Amortization		(137)		(83)
Total Net Value	**$**	**137**	**$**	**191**

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

Fiscal Year		Amount
2021		134
2022		134
2023		56
Total Future Payments	$	324
Less: Imputed Interest	$	(4)
Less: Executory Costs		(183)
Net Capital Lease Liability	$	137
Capital Lease Liabilities Covered by Budgetary Resources	$	324
Capital Lease Liabilities Not Covered by Budgetary Resources	$	-

Note 9. Commitments and Contingencies

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2020 and 2019.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the regulated entities. The regulated entities include Freddie Mac, Fannie Mae, the FHLBanks, and the Office of Finance. FHFA tracks program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. Strategic Goals 1) Safety and Soundness; 2) Liquidity, Stability, and Access; and 3) Conservatorship, guide program offices to carry out FHFA's vision and mission. FHFA has a Resource Management Strategy, which is distributed proportionately to Strategic Goals 1 – 3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA OIG costs are allocated to FHFA's Resource Management Strategy. Earned revenue is reported at the total level only.

FHFA's revenue was provided by the regulated entities through assessments. FHFA OIG received their funding through a $45.7 million transfer from FHFA in FY 2020 and a $45.3 million transfer in FY 2019. FHFA OIG's gross expenses for FY 2020 and FY 2019 were $48.1 million and $47.0 million, respectively.

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

Such costs and revenue are summarized as follows (dollars in thousands):

	2020		2019	
Safety and Soundness				
Intragovernmental Costs	$	33,438	$	32,623
Public Costs		128,495		125,281
Gross Safety and Soundness Program Costs		**161,933**		**157,904**
Liquidity, Stability, and Access				
Intragovernmental Costs		13,375		11,784
Public Costs		48,491		41,583
Gross Liquidity, Stability, and Access Program Costs		**61,866**		**53,367**
Conservatorship				
Intragovernmental Costs		7,353		7,264
Public Costs		65,466		59,319
Gross Conservatorship Program Costs		**72,819**		**66,583**
Total Intragovernmental Costs		54,166		51,671
Total Public Costs		242,452		226,183
Gross Program Costs		296,618		277,854
Less: Total Intragovernmental Earned Revenue		(2,622)		(3,657)
Less: Total Public Earned Revenue		(311,388)		(273,787)
Total Net Cost of Operations	**$**	**(17,392)**	**$**	**410**

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

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

		2020		2019
Unobligated Balance Brought Forward, October 1	$	34,317	$	24,017
Recoveries of Prior Year Obligations		4,971		8,807
Other Changes in Unobligated Balance		701		144
Unobligated Balance from Prior Year Budget Authority, Net	**$**	**39,989**	**$**	**32,968**

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, 2020 and 2019, the unobligated balance was $56 million and $34.3 million, respectively. FHFA may retain the FY 2020 unobligated balance of $21.7 million in the working capital fund during FY 2021. FHFA retained the FY 2019 unobligated balance of $34.3 million in the working capital fund during FY 2020 (See Note 2. Fund Balance With Treasury).

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

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). The FY 2022 President's Budget will include the actual budgetary execution information for FY 2020. The FY 2022 President's Budget is scheduled for publication in February 2021 and can be found at the OMB Website.[35] The FY 2021 President's Budget, with the "Actual" column completed for 2019, has been reconciled to the FY 2019 Statement of Budgetary Resources and there were no material differences (dollars in thousands):

		Budgetary Resources		New Obligations and Upward Adjustments		Distributed Offsetting Receipts		Net Outlays
Combined Statement of Budgetary Resources	$	356,022	$	321,704	$	276,570	$	261,065
Rounding		(1,022)		(704)		1,430		935
Budget of the U.S. Government		355,000		321,000		278,000		262,000
Total Unreconciled Difference	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**

[35] http://www.whitehouse.gov/omb

Note 14. Undelivered Orders at the End of the Period

Undelivered Orders balance as of September 30, 2020 (dollars in thousands):

	Federal		Non-Federal	
Paid Undelivered Orders	$	635	$	2,931
Unpaid Undelivered Orders		3,214		36,684
Total Undelivered Orders	**$**	**3,849**	**$**	**39,615**

Undelivered Orders balance as of September 30, 2019 (dollars in thousands):

	Federal		Non-Federal	
Paid Undelivered Orders	$	658	$	2,195
Unpaid Undelivered Orders		2,803		30,495
Total Undelivered Orders	**$**	**3,461**	**$**	**32,690**

Note 15. Incidental Custodial Collections

FHFA's custodial collections primarily consist of fines and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the Agency nor material to the overall financial statements. FHFA's custodial collections are $6,000 for the year ended September 30, 2020. Custodial collections totaled $700 for the year ended September 30, 2019. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

Note 16. Budget and Accrual Reconciliation

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

For the Year Ended September 30, 2020	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 51,544**	**$ (68,936)**	**$ (17,392)**
Components of Net Operating Cost Not Part of the Net Outlays			
Property, Plant, and Equipment Depreciation		(3,604)	(3,604)
Property, Plant, and Equipment Disposal & Reevaluation	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	(27)	(49)	(76)
Other Assets	(22)	736	714
(Increase)/Decrease in Liabilities:			
Accounts Payable	78	2,724	2,802
Salaries and Benefits	(510)	(1,283)	(1,793)
Other Liabilities	-	(2,241)	(2,241)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(5,951)		(5,951)
Total Components of Net Operating Cost Not Part of the Net Outlays	**$ (6,432)**	**$ (3,717)**	**$ (10,149)**
Components of the Net Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	109	109
Total Components of the Net Outlays That Are Not Part of Net Operating Cost	**-**	**109**	**109**
Net Outlays	**$ 45,112**	**$ (72,544)**	**$ (27,432)**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net, (Total)			285,152
Distributed Offsetting Receipts			(312,584)
Outlays, Net			**$ (27,432)**

For the Year Ended September 30, 2019	Intragovernmental		With the Public		Total
Net Cost of Operations	**$**	**48,014**	**$**	**(47,604)**	**$ 410**
Components of Net Operating Cost Not Part of the Net Outlays					
Property, Plant, and Equipment Depreciation				(3,904)	(3,904)
Property, Plant, and Equipment Disposal & Reevaluation		-		(125)	(125)
Increase/(Decrease) in Assets:					
Accounts Receivable		176		40	216
Other Assets		(26)		417	391
(Increase)/Decrease in Liabilities:					
Accounts Payable		(460)		(4,459)	(4,919)
Salaries and Benefits		(213)		(676)	(889)
Other Liabilities		-		833	833
Other Financing Sources:					
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency		(8,671)			(8,671)
Total Components of Net Operating Cost Not Part of the Net Outlays	**$**	**(9,194)**	**$**	**(7,874)**	**$ (17,068)**
Components of the Net Outlays That Are Not Part of Net Operating Cost					
Acquisition of Capital Assets		-		1,153	1,153
Total Components of the Net Outlays That Are Not Part of Net Operating Cost		**-**		**1,153**	**1,153**
Net Outlays	**$**	**38,820**	**$**	**(54,325)**	**$ (15,505)**
Related Amounts on the Statement of Budgetary Resources					
Outlays, Net, (Total)					261,065
Distributed Offsetting Receipts					(276,570)
Outlays, Net					**$ (15,505)**

Note 17. COVID-19 Activity

Although our assessments are reported as Appropriations in the Combined Statement of Budgetary Resources, FHFA is not subject to appropriations. As a non-appropriated funded agency, FHFA did not receive any additional funding to offset the costs related to the coronavirus disease (COVID-19). Funds used to prevent, prepare for, and respond to COVID-19 were reprogrammed from internal FY 2020 resources designated for travel for conducting examinations and other purposes. FHFA obligated $934,452 to support COVID-related requirements to ensure staff were adequately equipped to perform required telework and ensure the agency appropriately followed necessary back-to-work safety and health services measures. Costs related to COVID-19 are incorporated in the appropriate financial statements and not separately identified.

The Other Information section begins on the next page.

OTHER INFORMATION

In This Chapter

Audits and Evaluations

Every year, FHFA receives and responds to numerous performance audits, assessments, and evaluations concerning the effectiveness and efficiency of projects, policies, and programs. The FHFA OIG conducts performance audits, compliance reviews, and evaluations of Agency systems and programs.

GAO conducts an annual financial statements audit of FHFA and periodically conducts other assessments or reviews of the Agency. OIG also issues an annual assessment of FHFA's Management and Performance Challenges, which is presented on pages 95-107.

Table 20: Audits and Evaluations

FHFA OIG Reports			
1	AUD-2020-001	Audit of the Federal Housing Finance Agency's Information Security Program (Fiscal Year 2019)	2019-10-25
2	AUD-2020-003	FHFA Complied with Applicable Improper Payment Requirements for Fiscal Year 2019	2020-02-13
3	COM-2020-001	Compliance Review of the Timeliness of FHFA's Assessments of the Enterprises' Remediation Closure Packages for a Matter Requiring Attention	2020-02-21
4	AUD-2020-004	Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac	2020-02-25
5	OIG-2020-001	Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than $80,000 in Questioned Costs	2020-03-03
6	COM-2020-002	Compliance Review of FHFA's Enterprise Non-Performing Loan Sales Program	2020-02-26
7	WPR-2020-001	Fannie Mae and Freddie Mac Uniform Mortgage-Backed Securities	2020-03-04
8	WPR-2020-002	An Overview of Enterprise Use of Cloud Computing	2020-03-11
9	WPR-2020-003	Enterprise Third-Party Relationships: Risk Assessment and Due Diligence in Vendor Selection	2020-03-12
10	COM-2020-003	Compliance Review of FHFA's Process for Reviewing the Enterprises' Proposed FY 2019 and FY 2020 Annual Operating Budgets	2020-03-13
11	WPR-2020-004	Enterprises' Transition from LIBOR to an Alternative Index for Single-Family ARMs	2020-03-19
12	AUD-2020-005	FHFA's 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information	2020-03-23

Table 20: Audits and Evaluations			
FHFA OIG Reports			
13	AUD-2020-006	FHFA's Procurement Awards during the Period January 2017 to September 2019 Followed Most of its Acquisition Policies and Procedures but Some Required Internal Peer Reviews Were Not Performed	2020-03-24
14	EVL-2020-001	Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely	2020-03-25
15	AUD-2020-007	For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed	2020-03-26
16	AUD-2020-008	FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements	2020-03-26
17	OIG-2020-002	FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac	2020-03-30
18	AUD-2020-009	FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal	2020-03-30
19	OIG-2020-003	Summary of Administrative Inquiry: The Office of Inspector General's Review of a Hotline Complaint Alleging Improper Hiring of a Student Intern and Unauthorized Creation of Hiring Authorities	2020-05-19
20	OIG-RA-2020-001	Risk Assessment of FHFA's Government Purchase Card and Travel Card Programs July 1, 2019 – March 31, 2020	2020-07-14
21	COM-2020-004	Compliance Review of the Agency's Maintenance of Vehicle Use Logs and Training its Employees on Vehicle Use	2020-07-21
22	OIG-2020-004	Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers	2020-07-27
23	WPR-2020-005	Enterprise Monitoring of Cloud Computing Service Providers	2020-08-12
24	COM-2020-005	Compliance Review of Fannie Mae's Conflicts of Interest Policies and Procedures Regarding its Senior Executive Officers	2020-08-26
25	COM-2020-006	Freddie Mac Management Failed to Adopt and Implement Conflicts of Interest Policies Which Aligned Fully with FHFA's Directive on Senior Executive Officers' Conflicts of Interest, and With the Charter for the Freddie Mac Board's Nominating and Governance C	2020-08-26
26	EVL-2020-002	FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight	2020-08-27
27	WPR-2020-006	Enterprise Business Resiliency: Risk Assessment and Business Impact Analysis	2020-08-31

Table 20: Audits and Evaluations			
FHFA OIG Reports			
28	WPR-2020-007	Impact of Pandemic-Related Forbearance and Foreclosure Relief for Single-Family Mortgages on the Enterprises' Implementation of CECL	2020-09-03
29	AUD-2020-010	DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings	2020-09-03
30	OIG-2020-005	Management Advisory: FHFA-OIG's Investigation of Allegations of Fraud Affecting Paycheck Protection Program Loans Obtained or Sought from Federal Home Loan Bank Member Institutions	2020-09-08
31	AUD-2020-011	FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for 2019; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval	2020-09-09
32	AUD-2020-012	FHFA Completed All of its Planned Ongoing Monitoring Activities for Freddie Mac for 2019	2020-09-09
33	EVL-2020-003	More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations	2020-09-10
34	WPR-2020-008	Fannie Mae and Freddie Mac Purchases of eMortgages	2020-09-14
35	COM-2020-007	Compliance Review of FHFA's Commitments to Conduct Quality Control Review of Examination Conclusions Prior to Including Them in Reports of Examination	2020-09-15
36	AUD-2020-013	FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts	2020-09-17
37	AUD-2020-014	Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives	2020-09-29
GAO Reports			
1	GAO-20-198R	Financial Audit: Federal Housing Finance Agency's FY 2019 and FY 2018 Financial Statements	2019-11-19
2	GAO-20-637	Fannie Mae and Freddie Mac: Efforts to Promote Diversity and Inclusion	2020-09-08

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports.

Tables 20, 21, and 22 provide information on final action taken by management on audit reports for FY 2020.

Table 21: Management Report on Final Action on Audits with Disallowed Costs for FY 2020

	Audit Report	Number of Reports	Disallowed Costs
A	Management decisions - final action not taken at beginning of period	0	$0
B	Management decisions made during the period	1	$80,985
C	Total reports pending final action during the period (A and B)	1	$80,985
D	Final action taken during the period:	0	$0
	1. Recoveries:	0	$0
	(a) Collections and offsets	0	$0
	(b) Other	0	$0
	2. Write-offs	1	$80,985
	3. Total of 1(a), 1(b), and 2	1	$80,985
E	Audit reports needing final action at the end of the period	0	$0

Notes:

1. The OIG reported questioned costs of $80,985 in the Management Alert, *Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than $80,000 in Questioned Costs* (OIG-2020-001). Management reviewed the questioned costs and determined that pursuing recovery was not appropriate.

Table 22: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2020

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

Table 23: Audit Reports without Final Actions but with Management Decisions Over One Year Old for FY 2020

Report No. and Issue Date	Recommendation	Management Action
Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks (COM-2019-004)	Recommendation 2	Actions are expected to be completed by April 30, 2021.
Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009)	Recommendations 5 & 6	Actions are expected to be completed by August 31, 2021.
2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014)	Recommendation 2	Actions are expected to be completed by May 31, 2021.

Office of Inspector General
Management and Performance Challenges

OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
400 7th Street SW, Washington, DC 20219

October 14, 2020

TO: Mark A. Calabria, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2021 Management and Performance Challenges

We are pleased to provide you with this memorandum, issued pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531).

On September 5, 2019, the Department of the Treasury (Treasury) released its Housing Reform Plan (Treasury Plan). The Treasury Plan outlined possible legislative and administrative actions intended to reform the housing finance system, including specific preconditions for ending the conservatorships of Fannie Mae and Freddie Mac (the Enterprises).[1] The Federal Housing Finance Agency (FHFA) has stated that the Treasury Plan is "broadly consistent" with its current top three priorities to: (1) cement FHFA as a world-class regulator that ensures the Enterprises operate in a safe and sound condition; (2) end the conservatorships; and (3) foster competitive, liquid, efficient, and resilient national housing finance markets. FHFA has acknowledged much work must be done before it can end the conservatorships. FHFA also has recognized that the COVID-19 crisis "has provided ample evidence of the critical vulnerabilities in our mortgage system that put taxpayers and our housing market at risk."[2]

In our view, it is critical for FHFA to address the four serious management and performance challenges and one management concern summarized below and identified previously by the FHFA Office of Inspector General (FHFA-OIG) in order to further its mission in these uncertain, challenging times.

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[1] The Treasury Plan was developed in response to a March 27, 2019 Presidential Memorandum directing the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve several housing reform goals.
[2] FHFA, *Statement of Dr. Mark A. Calabria Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs* (June 9, 2020).

Overview

FHFA was created in July 2008 by the Housing and Economic Recovery Act of 2008 (HERA) (P.L. 110-289) to serve as regulator of the Enterprises and the Federal Home Loan Banks (FHLBanks). As their regulator, FHFA is charged with overseeing the safety and soundness and statutory missions of these entities. In September 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorships "in response to a substantial deterioration in the housing markets that severely damaged each Enterprise's financial condition and left both of them unable to fulfill their missions without government intervention."[3] For more than a decade, FHFA has served as the Enterprises' conservator and supervisor. More than 12 years in, it is apparent that it was far easier to establish the conservatorships than it will be to end them.

As their conservator, FHFA is ultimately responsible for all the Enterprises' business, policy, and risk decisions. To fulfill its responsibility, the Agency must ensure that both Enterprises are governed effectively and employ sound risk management practices. The stakes are high: with assets of more than $6 trillion as of June 30, 2020, the Enterprises' business and policy decisions both influence and affect the entire mortgage finance industry. This influence and effect are further underscored by a September 2020 statement by the Financial Stability Oversight Council (FSOC),[4] of which FHFA is a member, from an "activities-based" review of secondary mortgage market activities:

> The 2008 financial crisis demonstrated that financial stress at the Enterprises could limit their ability to provide reliable liquidity to the secondary market or perform their guarantee and other obligations on their [mortgage-backed securities (MBS)] and other liabilities, with significant implications for the national housing finance markets, financial stability, and the broader economy. The Enterprises continue to play a central role in the national housing finance markets—acquiring nearly 50% of newly originated mortgages in both single-family and multifamily markets—and are two of the largest U.S. financial institutions. The Enterprises' provision of secondary market liquidity generates significant interconnectedness among the Enterprises, banks, non-bank financial institutions, and other counterparties. Moreover, given their similar business models, risks at the Enterprises are highly correlated; if one Enterprise experiences financial distress, the other may as well. If the Enterprises were unable to provide liquidity to the secondary market, other market participants may be unable in the near- or medium-term to provide liquidity at the scale and pricing needed to ensure smooth market functioning and financial intermediation. As a result, any distress at the Enterprises that affected their secondary mortgage market activities, including their

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[3] FHFA, *History of Fannie Mae and Freddie Mac Conservatorships*.

[4] FSOC was established under the Dodd-Frank Wall Street Reform and Consumer Protection Act to provide comprehensive monitoring of the stability of our nation's financial system. FSOC is charged with identifying risks to the financial stability of the United States; promoting market discipline; and responding to emerging risks to the stability of the United States' financial system. FSOC consists of 10 voting members and 5 nonvoting members.

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ability to perform their guarantee and other obligations on their MBS and other liabilities, could pose a risk to financial stability, if risks are not properly mitigated.[5]

FHFA is also the supervisor for the Enterprises and for the FHLBanks, the latter of which collectively reported approximately $1 trillion in assets as of June 30, 2020. Under HERA, FHFA is responsible for conducting examinations of the Enterprises and the FHLBanks to ensure they operate safely and soundly and thereby serve as a reliable source of liquidity and funding for housing finance and community investment.

FHFA's new Strategic Plan and 2020 Scorecard "emphasize the need for the Enterprises and FHFA to prepare for a responsible exit from the conservatorships, following a roadmap with clear and appropriate milestones."[6] FHFA recognizes that it must implement a strong and well-executed supervision (examination) program prior to ending the conservatorships. To that end, it must perform "consistently rigorous, timely, and effective" examination work, and allocate "additional resources [] efficiently . . . to meet the needs of critical areas such as risk modeling and information technology." FHFA also recognizes that fixing the corporate cultures at Fannie Mae and Freddie Mac is "a fundamental prerequisite" to the Enterprises exiting conservatorship and acknowledged that the Agency has "a lot of work to do on that front."[7]

Based on our body of work, we have identified four serious management and performance challenges and a management concern, all of which carry over from prior years, that FHFA must address in order to advance its three mission priorities. We provide this report on these challenges and the management concern to assist the Agency in its effort to accomplish its mission. In our view, these management and performance challenges and management concern, if left unaddressed, could adversely affect FHFA's accomplishment of its mission.

The body of work upon which this report is premised is comprised of 176 reports issued by FHFA-OIG since October 2014. In them, we assessed FHFA's progress in addressing elements of each of these challenges. Where we have identified shortcomings and/or weaknesses, we proposed a total of 215 recommendations to address them. FHFA fully agreed to 182 of the 215, or 84.7%. For those recommendations FHFA has accepted, it has either implemented corrective actions or is in the process of doing so.

FHFA-OIG tracks FHFA's implementation of the recommendations to which it has agreed. FHFA-OIG regularly issues a Compendium of Open Recommendations that identifies both

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[5] FSOC, Financial Stability Oversight Council Statement on Activities-Based Review of Secondary Mortgage Market Activities (Sept. 25, 2020).

[6] FHFA, *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* at 3 (Oct. 2019); *see also* FHFA, *2020 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* at 6 (Oct. 2019).

[7] *See* U.S. House Committee on Financial Services, *Prioritizing Fannie's and Freddie's Capital over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic* (Sept. 16, 2020) (FHFA Director's response to a question from Congressman Barry Loudermilk) (https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=406867, at approximately 3:03 hours).

unimplemented open and rejected recommendations, organized by the risks presented by the serious management and performance challenges identified in this Memorandum. Our Semi Semiannual Reports to the Congress (SARs), for the periods ending March 31 and September 30, 2020, also set forth our unimplemented open recommendations, and those recommendations that FHFA has rejected.

Below are the four significant challenges and the management concern identified by FHFA-OIG, along with our assessments of FHFA's progress in addressing each.

Challenge: Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters

The Enterprises are large, complex financial institutions that dominate the secondary mortgage market and the mortgage securitization sector of the U.S. housing finance industry. Given the taxpayers' enormous investment in the Enterprises, the unspecified timeline to end the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

As the Enterprises' conservator, FHFA is vested by HERA with express authority to operate the Enterprises and conduct their business activities. Although FHFA has retained authority to make certain significant decisions for the Enterprises, it has delegated back to them authority for many matters, both large and small. As conservator, FHFA can revoke delegated authority at any time, retains authority for certain significant decisions, and is ultimately responsible for actions taken by the Enterprises pursuant to their delegated authority.

As demonstrated by our body of work, FHFA has limited its oversight of delegated matters largely to attending (as an observer) Enterprise internal management and board meetings, and to engaging in discussions with Enterprise managers and directors. Read together, the findings in these reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of actions taken by the Enterprises pursuant to delegated authority. For example, our work has found that FHFA has not assessed the reasonableness of the Enterprises' implementation of FHFA's conservatorship directives. Nor has FHFA assessed the adequacy of the oversight exercised by the Enterprises' boards of directors over the actions of management.

FHFA has not clearly defined its expectations of the Enterprises for delegated matters, nor has it established the accountability standard that it expects the Enterprises to meet for such matters. Our body of work has established the ineffectiveness of the Enterprises' internal control systems: directors were not provided with accurate and timely information sufficient to enable them to perform their oversight duties. Likewise, we established that some Enterprise directors did not diligently seek information from management about the matters for which they were responsible. We also identified instances in which corporate governance decisions generally reserved to a board of directors were delegated improperly to management.

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As we reported in our Fiscal Year (FY) 2020 work, our independent testing revealed continued challenges to Enterprise compliance with FHFA directives and Enterprise Board committees' execution of their responsibilities.

Our findings over the last six years about the weaknesses in Enterprises' execution of their delegated responsibilities were echoed by Director Calabria in his recent congressional testimony:

> Fannie and Freddie have what I would consider some of the worst corporate cultures I've ever seen in corporate America. Fixing that is a prerequisite to getting out of conservatorship.[8]

For the Enterprises to be governed effectively, their boards of directors and committees thereof must fulfill their delegated responsibilities.

Over the past six years, FHFA-OIG has found that FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. It is important that FHFA fulfill its conservatorship obligations with appropriately robust review and approval processes for non-delegated matters, which will enable FHFA to track, analyze, and resolve such matters, and provide decision-makers with all relevant information in a prompt and timely manner.

In summary, FHFA, as the Enterprises' conservator, is ultimately responsible for actions taken by the Enterprises, pursuant to authority it has delegated to them. FHFA's challenge, therefore, is to improve the quality of its oversight of matters it has delegated to the Enterprises for the duration of the conservatorships and ensure that its established processes are followed for non-delegated matters to promote reasoned decision-making.

Select FHFA-OIG Report Issued During FY 2020 on Delegated Matters:

- *Freddie Mac Management Failed to Adopt and Implement Conflicts of Interest Policies Which Aligned Fully with FHFA's Directive on Senior Executive Officers' Conflicts of Interest, and With the Charter for the Freddie Mac Board's Nominating and Governance Committee* (COM-2020-006, August 26, 2020).
- *Compliance Review of Fannie Mae's Conflicts of Interest Policies and Procedures Regarding its Senior Executive Officers* (COM-2020-005, August 26, 2020).

Select FHFA-OIG Reports Issued During FY 2020 on Non-Delegated Matters:

- *Compliance Review of FHFA's Process for Reviewing the Enterprises' Proposed FY 2019 and FY 2020 Annual Operating Budgets* (COM-2020-003, March 13, 2020).

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[8] See U.S. House Committee on Financial Services, *Prioritizing Fannie's and Freddie's Capital over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic* (Sept. 16, 2020) (FHFA Director's response to a question from Congressman Barry Loudermilk) (https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=406867, at approximately 3:03 hours).

Challenge: Upgrade Supervision of the Enterprises and Continue Supervision Efforts of the FHLBanks

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by HERA to ensure that these entities operate safely and soundly so they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises and the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks.

In its most recent annual Performance and Accountability Reports, FHFA cited its supervisory authority as its basis for ensuring the safe and sound operation of the Enterprises:

> FHFA promotes safe and sound operations of the regulated entities through the Agency's **supervisory program**. FHFA conducts supervision using a risk-based approach that prioritizes examination activities based on the risk that a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations. (Emphasis added.)[9]

FHFA has advised that effective safety and soundness supervision "is essential to preparing the Agency and the Enterprises to responsibly exit and operate safely outside of conservatorship."[10]

Prior to the start of the COVID-19 pandemic, FHFA announced that the Enterprises may emerge from conservatorship as early as 2021, and that FHFA has a roadmap by which to end those conservatorships. In January 2020, FHFA announced a realignment of its structure, which, in part, was designed to enhance its capacity to supervise the Enterprises. In March 2020, we reviewed the more than 40 reports we issued since October 2014 on FHFA's supervision program for the Enterprises. Thirty-four of these reports, read together, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution. We identified deficiencies in these areas: (1) examination guidance and execution; (2) the size of the examiner workforce, and the training and qualifications of its members; (3) the communication of supervisory findings; and (4) quality control.

Consequently, we cautioned that the challenge now facing FHFA is formidable. To remediate the deficiencies identified by us (and by FHFA) before the Enterprises are released from conservatorship, FHFA must accomplish a great deal in a relatively short period. Success will require a sustained, disciplined, and robust effort on the part of FHFA, led by an accountable

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[9] FHFA, *FY 2019 Performance and Accountability Report* at 13 (Nov. 19, 2019); *see also* FHFA, *FY 2018 Performance and Accountability Report* at 10 (Nov. 15, 2018); FHFA, *FY 2017 Performance and Accountability Report* at 9 (Nov. 15, 2017), FHFA, *FY 2016 Performance and Accountability Report* at 10 (Nov. 15, 2016), and FHFA, *FY 2015 Performance and Accountability Report* at 55 (Nov. 16, 2015).
[10] FHFA, *Statement of Dr. Mark A. Calabria Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs* (June 9, 2020).

senior executive. It will demand disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines.

FHFA has taken preliminary steps toward the goal of upgrading and strengthening its supervision program. The Agency informed OIG on June 30, 2020, that it has engaged a contractor to prepare an "organizational optimization Blueprint" to ensure that FHFA "has the optimal workforce, infrastructure, and organization to carry out its supervisory mission in a post-conservatorship environment." More recently, on September 22, 2020, FHFA announced a new strategic plan for the Agency (the plan covers FYs 2021-24). Among other things, the new strategic plan establishes an objective for the Agency to "develop and maintain a world-class supervision program."[11] The means and strategies to achieve this objective include, for example, "[a]dvance supervision practices, processes, systems, and tools to improve the efficiency and efficacy of the supervision programs…"

Six months have passed since our March 30, 2020, report in which we summarized the chronic and pervasive shortcomings in FHFA's supervision program, and we are unaware of any key substantive decisions about the future of FHFA's supervision program made by Agency's leadership; establishment of critical milestones or project deadlines; or the execution of any plans in furtherance of the Agency' stated intention to implement a strong and well-executed supervision (examination) program prior to ending the conservatorships.

The magnitude of the risk posed by the Enterprises is significantly greater than the magnitude of the risk posed by the FHLBanks together because the asset size of the latter is a fraction of the asset size of the former. For that reason, most of FHFA-OIG's work on supervision issues has focused on FHFA's supervision of the Enterprises. However, we also looked at elements of FHFA's supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

Select FHFA-OIG Reports Issued During FY 2020 on Supervision Matters:

- *Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives* (AUD-2020-014, September 29, 2020).
- *DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings* (AUD-2020-010, September 3, 2020).

[11] FHFA, *Strategic Plan: Fiscal Years 2021-2024* (Sept. 16, 2020).

- *FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in Its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight* (EVL-2020-002, August 27, 2020).
- *FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac* (OIG-2020-002, March 30, 2020).
- *Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely* (EVL-2020-001, March 25, 2020).
- *Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac* (AUD-2020-004, February 25, 2020).

Challenge: Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA

Cybersecurity is a pressing issue for the regulated entities. In December 2019, FSOC reported:

> The increasing reliance of the financial sector on information technology across a broadening array of interconnected platforms increases the risk that a cybersecurity event will have severe consequences for financial institutions. . . . Sustained senior-level commitment to mitigate cybersecurity risks and their potential systemic implications is necessary at both member agencies and private firms.[12]

FHFA's regulated entities are central components of the U.S. financial system and are interconnected with other large financial institutions. As part of their processes to guarantee or purchase mortgage loans, the Enterprises receive, store, and transmit significant information about borrowers, including financial data and personally identifiable information. Both the Enterprises and the FHLBanks have been the targets of cyber attacks.

FHFA recognizes that its regulated entities face significant operational risk from information security and cybersecurity threats. The Agency has cited this as an area of critical importance due to the Enterprises' concentration of borrower information and their market importance. Further, FHFA has acknowledged that several FHLBanks have issues with vulnerability management, cloud computing, and other information technology (IT) matters.

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing appropriate examination activities for the cybersecurity protections for the financial institutions it supervises. These examination activities

[12] FSOC, *2019 Annual Report* at 9.

may be made increasingly difficult by FHFA's continuing need to attract and retain highly qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

Cybersecurity is also a pressing concern for the federal government, as reflected by President Trump's May 2017 executive order regarding strengthening the cybersecurity of federal networks and critical infrastructure. FHFA has computer networks that are part of the nation's critical financial infrastructure, and FHFA is required to design information security programs to protect them. Computer networks maintained by federal government agencies have been proven to be a tempting target for disgruntled employees, hackers, and other intruders. Over the past few years, cyber attacks against federal agencies have increased in frequency and severity. As cyber attacks continue to evolve and become more sophisticated and harder to detect, they pose an ongoing challenge for virtually every federal agency to fortify and safeguard its internal systems and operations.

Our annual audits performed pursuant to the Federal Information Security Modernization Act of 2014 (FISMA) are intended to ensure FHFA's compliance with information security program standards and assist FHFA in strengthening protections over its network operations against those who would seek to attack its network. For FY 2019, an independent public accounting firm under contract with FHFA-OIG determined that FHFA implemented an effective information security program and practices and complied with FISMA, Office of Management and Budget guidance, and sampled security controls selected from NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. The firm also made multiple recommendations to assist FHFA in strengthening its information security program.

In support of the annual FISMA audit, we perform audits of select Agency information security controls. During FY 2020, these audits identified deficiencies. One audit found that FHFA lacked adequate controls over electronic media approved for destruction and did not follow its electronic media sanitization procedures. In another audit, we determined that FHFA conducted its annual disaster recovery exercise in accordance with its plan and procedures for recovering certain critical network services, but we identified gaps and outdated information in FHFA's plan, which creates the risk that an effective and timely recovery following a service disruption or real disaster may not occur. A third audit to determine whether FHFA followed its policies for cloud-based IT services found that the Agency failed to validate the implementation of the minimum security requirements for certain cloud-based tools and did not include required IT security provisions in some cloud service contracts.

FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and confirming that its third-party providers meet information security program requirements.

Select FHFA-OIG Reports Issued During FY 2020 on Cybersecurity and FHFA's Internal Controls Over Information Technology:

- *FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts* (AUD-2020-013, September 17, 2020).
- *FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal* (AUD-2020-009, March 30, 2020).
- *FHFA's 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information* (AUD-2020-005, March 23, 2020).
- *Audit of the Federal Housing Finance Agency's Information Security Program, Fiscal Year 2019* (AUD-2020-001, October 25, 2019).

Challenge: Enhance Oversight of the Enterprises' Relationships with Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties to properly originate and service the mortgages the Enterprises purchase and to provide operational support for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including risks related to information security, business continuity, and other safety and soundness issues. As FSOC has cautioned:

> Financial institutions have become increasingly reliant on third-party service providers to perform important business functions. . . . While outsourcing can have advantages, reliance on third-party service providers also has risks. . . . While cloud providers may offer superior cost or technological solutions, there have also been recent instances of unauthorized access to client data at cloud providers. The reliance of many institutions on a single vendor to provide a critical service creates concentration risk. A service interruption or cyber event at a critical vendor with a large number of clients could result in widespread disruption in access to financial data and could impair the flow of financial transactions.[13]

There also is risk that a counterparty may not meet its contractual obligations. FSOC has noted, "Nonbanks have a particularly important role as providers of mortgage credit and servicing to low-income and riskier borrowers. However, most nonbank mortgage companies have fewer resources to absorb adverse shocks and are more dependent on short-term funding than banks."[14]

[13] FSOC, *2019 Annual Report* at 97.
[14] *Id.* at 6.

In March 2020, FHFA expressed concern that nonbank servicers might be at risk of failing during the coronavirus pandemic as a consequence of the forbearance relief made available to homeowners under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act).[15]

Another risk is that a counterparty may engage in fraudulent conduct. Our publicly reportable criminal investigations include inquiries into alleged fraud by a variety of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies. These illustrate that the risk of fraudulent conduct by counterparties and third parties is both real and multifaceted.

FHFA has delegated to the Enterprises the management of their relationships with counterparties and third parties, and it reviews their management largely through its supervisory activities. We have noted above our significant concerns with the strength and rigor of those supervisory activities. In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to effectively oversee the Enterprises' management of these risks.

Select FHFA-OIG Reports Issued During FY 2020 on FHFA's Oversight of the Enterprises' Relationships with Counterparties and Third Parties:

- *FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in Its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight* (EVL-2020-002, August 27, 2020).
- *Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers* (OIG-2020-004, July 27, 2020).
- *Compliance Review of FHFA's Enterprise Non-Performing Loan Sales Program* (COM-2020-002, February 26, 2020).

Management Concern: Sustain and Strengthen Internal Controls Over Agency Operations, Including Workforce Planning

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency.

Workforce planning is a process for identifying and addressing gaps between an organization's current staff and its future workforce needs. According to the Office of Personnel Management (OPM), workforce planning serves as the foundation for managing an organization's human

[15] The CARES Act is a $2.2 trillion economic stimulus bill that was signed into law on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States. *See* P. Law 116-136, § 4022, Foreclosure moratorium and consumer right to request forbearance.

capital.[16] Similarly, the Government Accountability Office recognizes, in its *Standards for Internal Control in the Federal Government* (the Green Book), that "effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible."

In February 2020, we reported that FHFA had not engaged in a systematic workforce planning process for DER for a seven-year period, notwithstanding its prior commitments to do so. In response, FHFA has described actions taken in conjunction with the realignment of the Agency's structure announced in January 2020. As discussed previously, FHFA engaged a contractor in May 2020 to prepare "an organizational optimization Blueprint, including a human capital management plan, to cement FHFA's position as a world-class regulatory agency and to ensure the agency has the optimal organizational framework to carry out its supervisory mission in a post-conservatorship environment." From a control standpoint, it is critical for FHFA to address FHFA-wide organizational issues to ensure that the directions of the Green Book are met.

Our work also demonstrates that FHFA is challenged to ensure that its existing controls, including its written administrative policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

During the last year, we determined that in FY 2019 FHFA paid an IT contractor $80,985 more than it owed under the contract because the contractor did not provide the required staffing levels for more than three months. Another recent audit found that FHFA's controls over its reimbursements and stipends program during FY 2019 were not fully effective: we found non-systemic exceptions related to non-authorized reimbursements. Another audit reviewed a sample of procurement awards and found that FHFA made those awards in accordance with most of its policies and procedures. However, we found that required internal peer reviews were not performed for five contracts in our sample.

In my letter last year, we noted that both the Agency and the Enterprises had undergone significant leadership changes. Since then, in January 2020, FHFA announced a realignment of its structure, and FHFA has announced the hiring of several senior executives during FY 2020. As discussed above, our work has identified shortcomings in the Agency's internal control over its resources; none of the shortcomings were indicative of significant, systemic deficiencies. However, changes in leadership carry the risk that internal controls may deteriorate as new initiatives are undertaken.

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[16] OPM has issued guidance and best practices that provide a framework for effective workforce planning. The OPM framework involves analyzing the mission, vision, and strategic plan for an organization; evaluating the current staff of the organization, including identification of current skills and competencies of the workforce (supply analysis); and forecasting the optimal headcount and competencies needed to meet the needs of the organization in the future (demand analysis). Any gap between supply and demand is evaluated to identify headcount or competency gaps.

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Select FHFA-OIG Reports Issued During FY 2020 on FHFA's Internal Controls over Agency Operations:

- *For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed* (AUD-2020-007, March 26, 2020).
- *FHFA's Procurement Awards during the Period January 2017 to September 2019 Followed Most of its Acquisition Policies and Procedures but Some Required Internal Peer Reviews Were Not Performed* (AUD-2020-006, March 24, 2020).
- *Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than $80,000 in Questioned Costs* (OIG-2020-001, March 3, 2020).
- *Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac* (AUD-2020-004, February 25, 2020).

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For the coming year, our audits, evaluations, compliance reviews, and other work will focus on the challenges highlighted in this memorandum. Included in these efforts will be verification testing on closed recommendations to independently determine whether FHFA has implemented in full the corrective actions it represented to us that it intended to take and following up on open recommendations.

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Kate Fulton, Chief Operating Officer
Mark Kinsey, Chief Financial Officer
Alfred Pollard, General Counsel
John Major, Internal Controls and Audit Follow-Up Manager

Summary of Financial Statements Audit and Management Assurances

Table 24: 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 25: Summary of Management Assurances						
Effectiveness of Internal Control Over Financial Reporting (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control Over Operations (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (Federal Management Financial Integrity Act Paragraph 4)						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Table 25: Summary of Management Assurances		
Compliance with Section 803(a) of the Federal Financial Management Improvement Act (Federal Management Financial Integrity Act Paragraph 4)		
Statement of Assurance	**Systems conform to financial management system requirements**	
	Reassessed	Ending Balance
1) Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2) Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3) USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

Payment Integrity

Payment Information Integrity Act of 2019 (PIIA) became effective March 2, 2020. During FY 2020, FHFA complied with both the new Act and its predecessor, the Improper Payments Information Act, as amended, requires that agencies: (1) review programs and activities' susceptibility to significant improper payments; (2) estimate the amount of annual improper payments for those programs and activities and implement a plan to reduce them; and (3) report the estimated amount of improper payments and the progress to reduce them. Both Acts define "significant improper payments" as the gross annual improper payments exceeding either: a) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported; or b) $100 million (regardless of the percentage of total program outlays).

FHFA, in the spirit of compliance and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA accesses and reviews the exclusions list in the System for Award Management to ensure that potential awardees do not appear on the list prior to awarding contracts. FHFA contracts with the Bureau of the Fiscal Service for accounting services including payments to vendors. The supplier database is compared to the Do Not Pay portal on a daily basis. A copy of the supplier database is sent to the Do Not Pay portal once a week. Additionally, matching results are pulled from the Do Not Pay portal once a week. The matching results are researched and acted on, as appropriate. FHFA has not identified any programs or activities susceptible to significant improper payments that meet the Act's thresholds. In February 2020, FHFA OIG reported that FHFA complied with applicable provisions of the Improper Payments Information Act, as amended, as well as the related OMB guidance during fiscal year 2019.[36]

[36] https://paymentaccuracy.gov.

Fraud Reduction Report

FHFA's approach to fraud prevention and detection begins with the Agency's leadership. The administrative law group, led by the alternate designated agency ethics official in the Office of General Counsel, manages the day-to-day operations of the ethics program that covers FHFA employees. The administrative law group maintains an ethics webpage on the Agency's intranet site and a mobile ethics app that provides guidance on various topics such as whistleblower protections, conflicts of interest, financial disclosures, post-employment, and outside employment. The page contains the Standards of Ethical Conduct for employees of the executive branch and Supplemental Standards of Ethical Conduct for employees of FHFA. The administrative law group provides annual ethics training and new hire orientation training for FHFA and FHFA OIG employees. Training includes ways to identify and report potentially fraudulent or fraudulent activities.

Additionally, FHFA has two Agency-wide groups, the Internal Controls and Audit Group and the A-123 Assessment Working Group (AAWG), which operates under the supervision of the Internal Controls and Audit Group. The AAWG conducts annual assessments of the Agency's financial condition, internal controls and compliance with applicable laws and regulations (A-123 assessment). AAWG assists each reporting division in conducting its A-123 assessment in accordance with applicable GAO standards. The AAWG point of contacts do not perform tasks they are assessing, and all results are analyzed and presented to the Executive Committee on Internal Controls.

Among other areas of assessment, the analysis of the responses allows the Internal Control Group and AAWG to help identify potential control or compliance issues that may create a vulnerability to fraud and to identify potential next steps to address any control or compliance concerns. The risk of fraud is also considered by the Risk Management Working Group as part of the enterprise risk management risk identification process. Fraud Risk Assessment is built into Internal Control over Financial Reporting Risk Assessment and Testing as business units' access to financial transactions is limited to:

- Contracting,
- Inventory/Purchase Requisitions,
- Purchase Cards,
- Payroll, and
- Travel.

FHFA's strategy to prevent fraud risk is based on education, awareness, and ease of reporting. Fraud risk is mitigated by employee background checks, fraud awareness training, system edit checks, system access, data matching to verify eligibility, segregation of duties, standards of conduct, data monitoring, and transaction limits.

Civil Monetary Penalty Adjustment for Inflation

Table 26: Civil Monetary Penalty Adjustment for Inflation

Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level	Location for Penalty Update Details
ENFORCEMENT REGULATIONS:					
Safety and Soundness Act 12 U.S.C. 4636 (b) (1)	First Tier	2008	2020	$11,883	Federal Register 85 (January 2020) 4903 – 4905
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2020	$59,413	Federal Register 85 (January 2020) 4903 – 4905
Safety and Soundness Act - 12 U.S.C. 4636 (b) (4)	Third Tier – Entity affiliated party and regulated entity	2008	2020	$2,376,518	Federal Register 85 (January 2020) 4903 – 4905
PROGRAM FRAUD CIVIL REMEDIES REGULATION:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (1)	Maximum penalty per false claim	2009	2020	$11,665	Federal Register 85 (January 2020) 4903 – 4905
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (2)	Maximum penalty per false statement	2009	2020	$11,665	Federal Register 85 (January 2020) 4903 – 4905
FLOOD INSURANCE REGULATION:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum penalty per violation	2009	2020	$578	Federal Register 85 (January 2020) 4903 – 4905
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum total penalties assessed against an Enterprise in a calendar year	2009	2020	$166,661	Federal Register 85 (January 2020) 4903 – 4905

The Appendix section begins on the next page.

APPENDIX

In This Chapter

Glossary

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

Capital Magnet Fund – Offers grants that are competitively awarded by the U.S. Department of the Treasury Community Development Financial Institutions Fund to finance affordable housing solutions and community revitalization efforts that benefit low-income people and communities nationwide.

Common Securitization Platform (CSP) – The operational and technical platform used by the Enterprises to issue and administer a common mortgage-backed security.

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

Community Investment Cash Advance (CICA) – CICA programs offer funding for FHLBank members to provide financing for projects that are targeted to certain economic development activities. CICA lending is targeted to specific beneficiaries, including small businesses and certain geographic areas.

Community Investment Program (CIP) – Advances from this FHLBank program finance housing for households with incomes up to 115 percent of the area median income, commercial and economic development activities that benefit low- and moderate-income families, or activities located in low- and moderate-income neighborhoods.

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

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

Enterprise(s) – Fannie Mae and Freddie Mac.

London Interbank Offered Rate (LIBOR) – An interest rate benchmark widely used in global markets. There are estimated to be more than $200 trillion of financial contracts such as loans, derivatives, bonds and floating rate notes, short-term instruments, and securitizations referencing U.S. dollar LIBOR. The Financial Conduct Authority, the United Kingdom-based regulator of LIBOR, has been warning market participants since 2017 that it will stop compelling panel banks to submit LIBOR quotes beginning in 2022. FHFA is working with its regulated entities as they monitor exposure to LIBOR and develop transition plans to lower their exposure in a safe and sound manner.

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

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

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

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

Secured Overnight Financing Rate (SOFR) – An alternate reference rate selected by the Alternative Reference Rates Committee to replace the London Interbank Offered Rate.

"To-Be-Announced" (TBA) Markets – Forward markets for certain mortgage-backed securities.

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

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Acknowledgements

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We welcome your comments on how we can improve our report. The PAR can be found at www.fhfa.gov/AboutUs/Pages/Budget--Performance.aspx. Please provide comments or questions to:

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