441 G St. N.W.
Washington, DC 20548

November 15, 2021

The Honorable Sherrod Brown
Chairman
The Honorable Patrick Toomey
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 2021 and FY 2020 Financial Statements

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2021 and 2020 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 2021*.

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, 2021, and 2020, 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, 2021; and
- no reportable noncompliance for fiscal year 2021 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

[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.

requires GAO to audit the agency's financial statements.[2] In accordance with the act, we have audited FHFA's financial statements.

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 Acting 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) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Beryl H. Davis

Beryl H. Davis
Director, Financial Management and Assurance

Enclosure

(105109)

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

FY2021
Performance & Accountability REPORT

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Message from the Acting Director

This Fiscal Year (FY) 2021 Performance and Accountability Report provides the financial statements and analysis for the Federal Housing Finance Agency (FHFA), and it assesses the performance of FHFA as regulator of the Federal Home Loan Bank (FHLBank) System and as regulator and conservator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – together, the Enterprises. This report meets the requirements of the Government Performance and Results Modernization Act of 2010 and Office of Management and Budget (OMB) Circulars A-123 and A-136.

The strategic goals against which this report evaluates the Agency's performance were established before the beginning of my term as Acting FHFA Director. As such, during the approximately three months of my tenure that are included in this report, I focused on meeting the existing goals, while also beginning to transition the Agency and its regulated entities toward new goals that I believe are necessary to enable FHFA to fulfill its statutory responsibilities. We will release a new FHFA Strategic Plan in calendar year 2022 that will reflect and advance these new priorities:

1) Ensuring all Americans, especially those in underserved communities, have access to a fair, equitable, and sustainable housing finance system that supports safe, decent, and affordable homeownership and rental housing opportunities;

2) Strengthening the safety and soundness of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to protect the housing finance system throughout the economic cycle; and

3) Protecting FHFA's infrastructure by cultivating a diverse and talented workforce that respects and values differences, by defending against cybersecurity threats, and by managing taxpayer resources prudently.

FHFA is responding to shortages in the overall housing supply by ensuring our regulated entities finance the existing affordable housing stock, enable homes in disrepair to be rehabilitated, and support the growth of our nation's housing supply. As these shortages contribute to worsening affordablility, a key priority for our regulated entitites will be to support affordable housing in a safe and sound manner.

FHFA continues to strengthen the safety and soundness of our regulated entities. In FY 2021, we finalized a regulatory capital rule for the Enterprises that is designed to ensure the financial health of Fannie Mae and Freddie Mac throughout the economic cycle. Upon gaining experience with the implementation of that framework, we followed up by proposing two enhancements that will ensure the rule operates as intended and transfers risk away from taxpayers and to private markets. After considering public comments received, FHFA will finalize these enhancements in FY 2022.

FHFA's high performance culture leads us to continuously review our work to identify opportunities for improvements. Transparency and ongoing dialogue with stakeholders and the public are vital to the policymaking process. The publication of this report is one of the ways FHFA informs the public about our actions and decision making to facilitate this ongoing dialogue.

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

Sincerely,

SANDRA L. THOMPSON
Acting Director, Federal Housing Finance Agency
November 5, 2021

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.

INTEGRITY:

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

ACCOUNTABILITY:

We are responsible for carrying out our work with transparency and professional excellence.

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. It included an updated mission, vision, and values for the Agency. This Strategic Plan was developed prior to FHFA's transition under the new administration. In FY 2022, FHFA will publish a new Strategic Plan that will reflect the priorities of the Agency's new leadership.

List of Abbreviations

Abbreviation	Description
AHP	Affordable Housing Program
AHP IP	AHP Implementation Plan
AMA	Acquired Member Assets
AMI	Area Median Income
APP	Annual Performance Plan
ARM	Adjustable Rate Mortgage
ARRC	Alternative Reference Rates Committee
Bank Act	Federal Home Loan Bank Act
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
CEAR	Certificate of Excellence in Accountability Reporting
CFPB	Consumer Financial Protection Bureau
CLEAR	Competitive, Liquid, Efficient, And Resilient
CRS	Call Report System
CRT	Credit Risk Transfer
CSS	Common Securitization Solutions, LLC
CY	Calendar Year
D&I	Diversity and Inclusion
DAFS	Division of Accounting and Financial Standards
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DCOR	Division of Conservatorship Oversight and Readiness
DRS	Division of Research and Statistics
DTS	Duty to Serve
ECIC	Executive Committee on Internal Controls
EEO	Equal Employment Opportunity
ERCF	Enterprise Regulatory Capital Framework
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FCA	Financial Conduct Authority
FEVS	Office of Personnel Management's Federal Employee Viewpoint Survey
FHFA	Federal Housing Finance Agency
FHFA HPI®	FHFA House Price Index®
FHLBank	Federal Home Loan Bank
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Practices

Abbreviation	Description
GAO	U.S. Government Accountability Office
HERA	Housing and Economic Recovery Act of 2008
HUD	U.S. Department of Housing and Urban Development
IT	Information Technology
LEP	Limited English Proficiency
LIBOR	London Interbank Offered Rate
LIHTC	Low-Income Housing Tax Credit
LTV	Loan-to-Value
MBS	Mortgage-Backed Security
MOU	Memorandum of Understanding
MRA	Matter Requiring Attention
MVE	Market Value of Equity
MTM	Mark-to-Market
MWOB	Minority- and Women-Owned Businesses
NMDB®	National Mortgage Database®
NPR	Notice of Proposed Rulemaking
NSMO	National Survey of Mortgage Originations
OCAC	Office of Congressional Affairs and Communications
OCOO	Office of the Chief Operating Officer
OEOF	Office of Equal Opportunity and Fairness
OF	Office of Finance (of the Federal Home Loan Bank System)
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPB	Operating Procedure Bulletin
OPM	U.S. Office of Personnel Management
OPPR	Office of Planning, Performance, and Risk
PAR	Performance and Accountability Report
Plan	Duty to Serve Underserved Markets Plan
PSPA	Preferred Stock Purchase Agreement
PUDB	Public Use Database
PVCS	Par Value of Capital Stock
REO	Real Estate Owned
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
TCLP	Targeted Community Lending Plan
Treasury	U.S. Department of the Treasury
UPB	Unpaid Principal Balance
U.S.C.	United States Code
U.S. GAAP	U.S. Generally Accepted Accounting Principles

MANAGEMENT'S DISCUSSION AND ANALYSIS

FHFA's Response to COVID-19

In FY 2021, the Federal Housing Finance Agency (FHFA) continued to take decisive action to support the market and provide relief to renters and borrowers with a mortgage backed by the Enterprises. For FHFA's full response to COVID-19, visit https://www.fhfa.gov/Homeownersbuyer/MortgageAssistance/Pages/Coronavirus-Assistance-Information.aspx.

BORROWER AND RENTER RELIEF

- After the onset of the pandemic, FHFA instructed the Enterprises to take a variety of critical actions to support borrowers and renters. Acknowledging COVID-19 public health concerns and disruptions in business operations, such actions included the introduction of certain temporary single-family underwriting and appraisal policies to minimize liquidity impacts for purchase and refinance transactions. COVID-19 payment deferral was announced, allowing borrowers to defer missed payments to the end of their loan term, as an additional home retention solution for pandemic-affected borrowers. In addition, foreclosures on Enterprise backed loans and evictions of Enterprise-backed real estate owned properties were suspended.
- The Enterprises' standard policy allows borrowers up to 12 months of forbearance. The Enterprises modified this policy, expanding the allowable time frame for borrowers to resolve COVID-19 hardships, aligning COVID-19 forbearance and other COVID loss mitigation programs with the national foreclosure moratorium. On February 25, 2021, FHFA extended the COVID-19 forbearance program for qualified borrowers to 18 months. FHFA also announced an expansion of COVID-19 payment deferral to allow forbearance for up to 18 months.
- Recognizing that borrowers in longer-term COVID-19 forbearance (greater than 12 months) may need deeper payment relief for a successful loss mitigation outcome, FHFA and the Enterprises made certain adjustments to the aligned flex modification program. On June 30, 2021, FHFA announced that the Enterprises' aligned flex modification would provide an opportunity for rate reduction to borrowers with a COVID-19 hardship, regardless of the mark-to-market (MTM) loan-to-value (LTV) ratio on their mortgages, allowing more families to qualify for an interest rate reduction and furthering home retention. Previously, only borrowers with MTM LTVs greater than or equal to 80 percent were eligible for an interest rate reduction.
- On July 28, 2021, FHFA announced that tenants of multifamily properties with mortgages backed by either Enterprise who are subject to eviction for nonpayment of rent must be given 30 days' notice before the tenant can be required to leave the unit. This requirement applies to all Enterprise-backed multifamily properties, regardless of whether the loan is in forbearance.
- On July 30, 2021, FHFA announced that the Enterprises would further extend the moratoriums on single-family foreclosures and real estate owned (REO) evictions until September 30, 2021. The Centers for Disease Control and Prevention's eviction moratorium expired on July 31, 2021. The foreclosure moratorium applies to Enterprise-backed, single-family mortgages only. The REO eviction moratorium applies to properties that have been acquired by an Enterprise through foreclosure or deed-in-lieu of foreclosure transactions.
- On September 24, 2021, FHFA announced that the Enterprises will continue to offer COVID-19 forbearance to qualifying multifamily property owners as needed, subject to the continued tenant protections FHFA has imposed during the pandemic. This is the fourth extension of the programs, which were set to expire September 30, 2021.

ACCOUNTING OVERSIGHT

- The Agency oversaw the regulated entities' decisions to elect relief from troubled debt restructuring accounting and disclosure requirements for eligible COVID-19-related loss mitigation activities, as permitted under the Coronavirus Aid, Relief, and Economic Security Act. During 2021, FHFA maintained close supervisory oversight of regulated entity accounting policies as the portfolios of loans in forbearance transitioned into formal modifications and provided guidance to the Enterprises on presentation in financial statements and associated disclosures.

About the Federal Housing Finance Agency

Background on FHFA's Statutory Obligations

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 FHLBanks and Office of Finance (OF), a joint office of the FHLBanks. FHFA's mission is to ensure that Fannie Mae, Freddie Mac, and the FHLBanks, (together, the regulated entities[2]) operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment through the economic cycle. Since September 6, 2008, FHFA has also served as conservator of the Enterprises.

REGULATOR

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

The Safety and Soundness Act requires FHFA to fulfill the following duties:

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

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

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

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

  iv. each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with the Safety and Soundness Act and the authorizing 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.[4]

CONSERVATOR

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

(D) ...take such action as may be—
  i. necessary to put the regulated entity in a sound and solvent condition; and

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

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

2 OF is not a "regulated entity" as the term is defined by statute (12 U.S.C. § 4502(20)). However, for convenience, references to the "regulated entities" in this report should be read to also apply to OF unless otherwise noted.
3 12 U.S.C. § 4513.
4 12 U.S.C. § 4513(a)(1).
5 12 U.S.C. § 4617(b)(2)(D).

Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of... available programs to minimize foreclosures."[6]

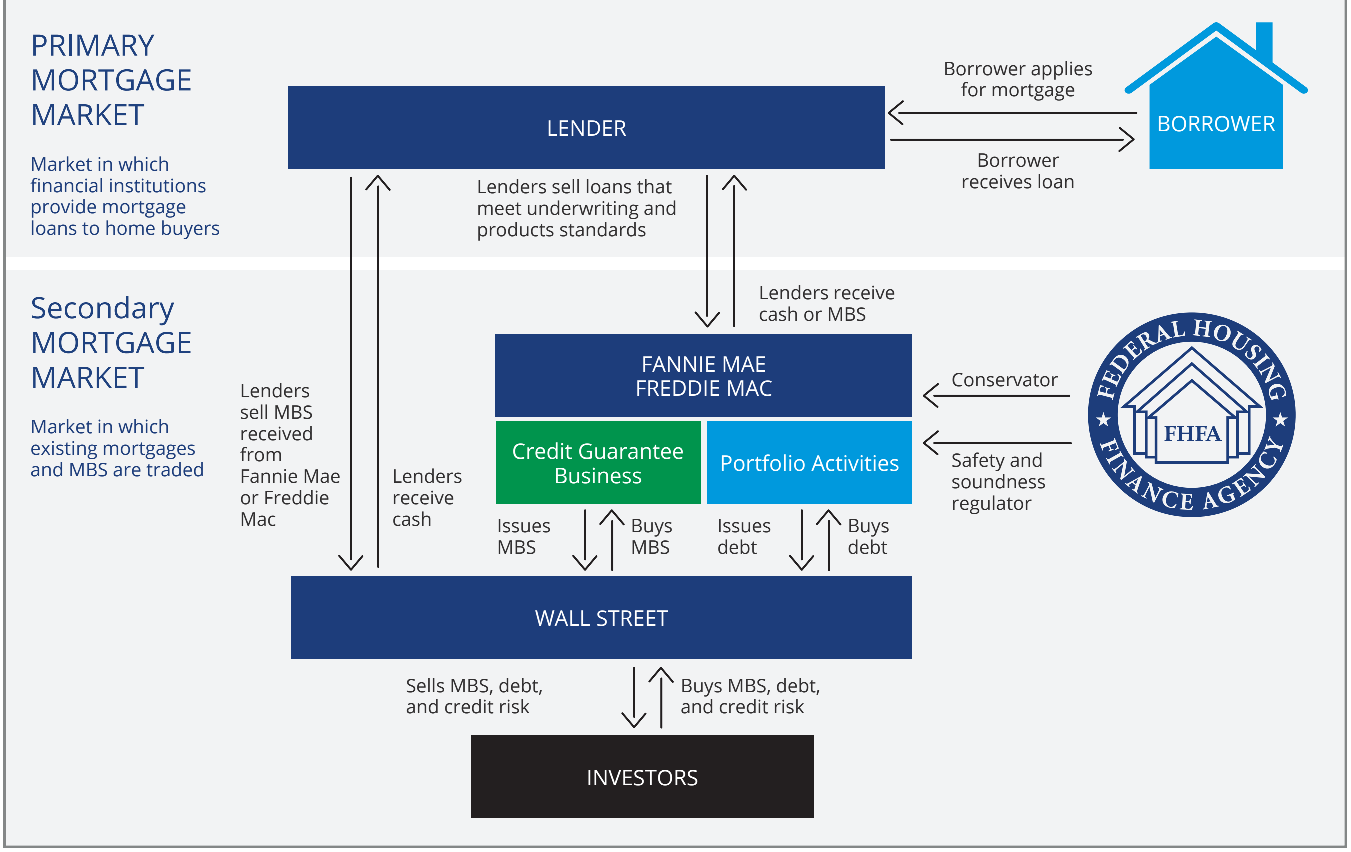
Background on the Regulated Entities

THE ENTERPRISES

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

To reduce their credit risk exposure on guaranteed mortgages, the Enterprises routinely sell a portion of the credit risk on newly acquired single-family mortgages in targeted categories to the private sector. The Enterprises also purchase multifamily mortgages, and each Enterprise uses a different model of credit risk sharing for these purchases. Fannie Mae uses primarily, loss-sharing transactions through a delegated underwriting system. Freddie Mac uses primarily, a capital markets execution that transfers the bulk of its credit risk. Since 2008, the Enterprises have operated in conservatorships.

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



6 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[7] to fund the FHLBanks' operations. The FHLBanks are private member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making loans, known as advances, to member institutions and housing associates (see Figure 2). These advances increase the available funding for residential mortgages. The FHLBanks secure these advances with eligible collateral, consisting primarily of single-family mortgages, multifamily mortgages, government and agency securities, and commercial real estate loans. Some FHLBanks also purchase mortgage loans directly from their members through on-balance sheet Acquired Member Assets (AMA) programs.

As of September 30, 2021, there were 6,612 active FHLBank members, consisting of commercial banks, credit unions, thrifts, insurance companies, and community development financial institutions.

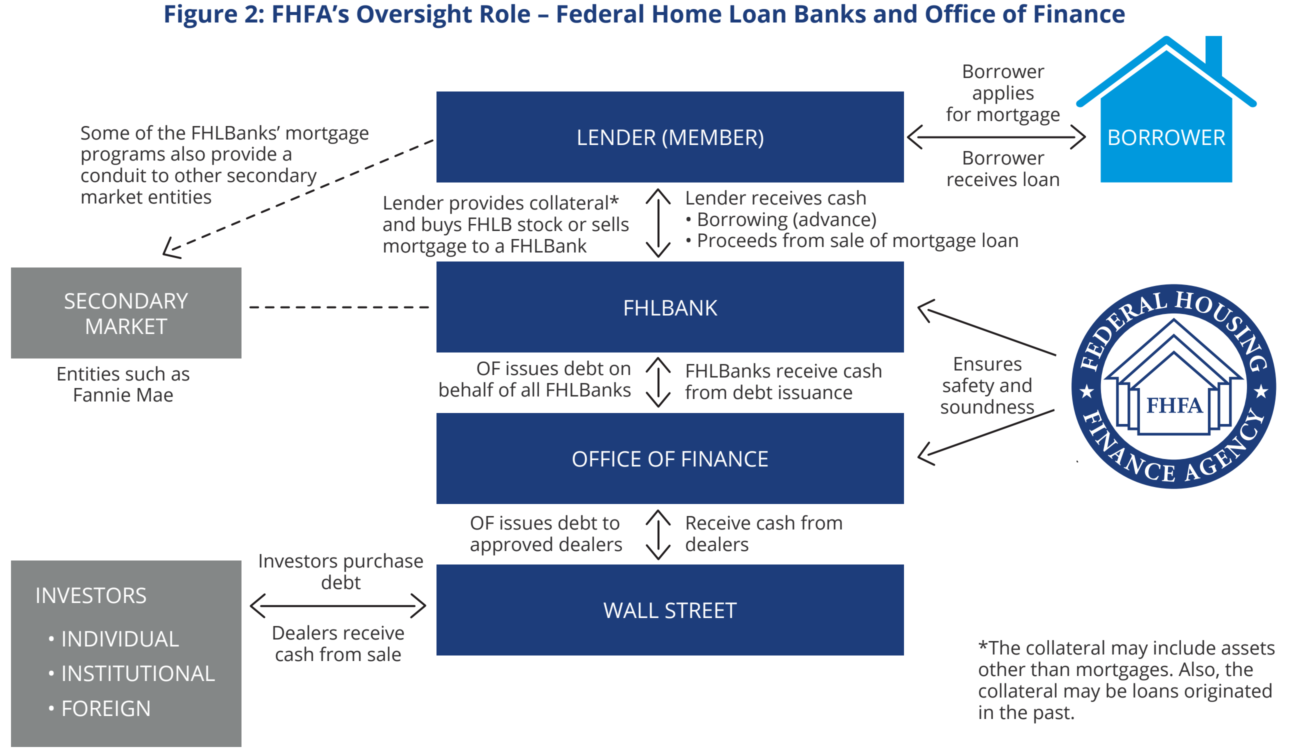
Table 1 illustrates the scope of the regulated entities' involvement in the housing market for Calendar Year (CY) 2020 and CY 2021 through the third quarter.

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

		Jan. – Dec. 2020	Jan. – Sep. 2021
Enterprise New Business	Single-Family Purchase	$736	$663
	Single-Family Refinance	$1,714	$1,356
	Multifamily	$159	$94
	TOTAL	$2,609[a]	$2,113[a]
FHLBank New Business[b]	On-Balance Sheet Acquired Member Assets Mortgages	18	11
	Off-Balance Sheet Mortgages	14	4
FHLBank AMA Mortgages Outstanding[c]		63	56
FHLBank Advances Outstanding[c]		422	350

[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.*

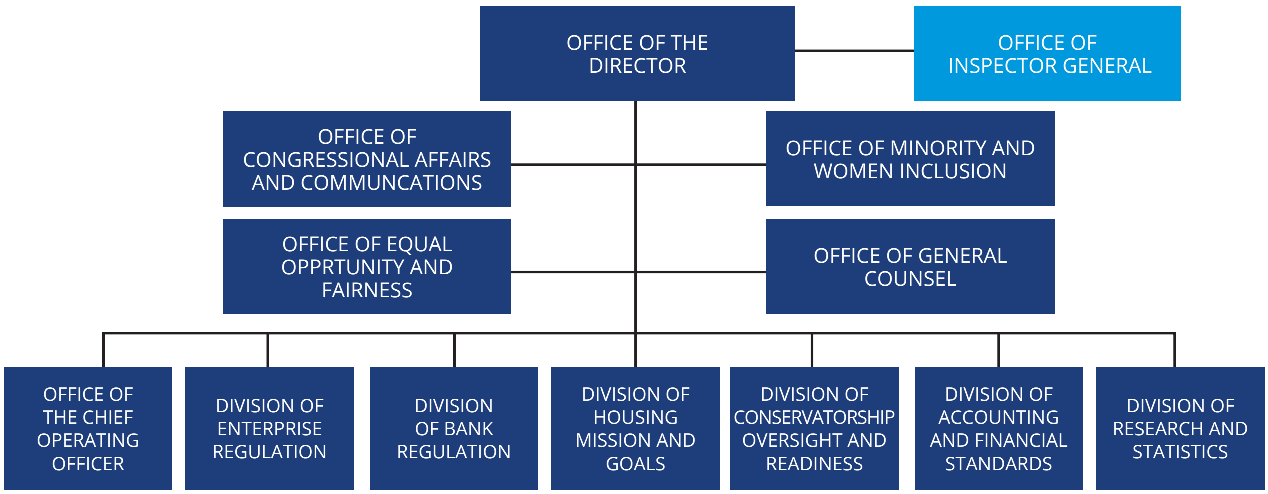
Figure 2: FHFA's Oversight Role – Federal Home Loan Banks and Office of Finance



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

FHFA Organization

Figure 3: FHFA Principal Organization Structure



FHFA is an independent government agency with a workforce that includes highly skilled examiners, economists, financial analysts, 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 Agency operated with an approved operating budget of $241.0 million in FY 2021 and ended the year with 693 employees on board. For FY 2022, the Agency's budget increased to $279.1 million and supports 780 positions. FHFA's Office of Inspector General (OIG) operated with a FY 2021 budget of $49.9 million and ended the year with 120 positions on board. The OIG FY 2022 budget remained at $49.9 million which can support 155 positions. See Table 2 for staff distribution by major divisions and offices.

Table 2: FHFA Staffing Summary

FHFA Employees (by specialized area)	As of 9/30/2021	
	FY 2021 Year End[a]	FY 2022 Budgeted[b]
Office of the Director	3	6
Office of the Chief Operating Officer	133	157
Division of Enterprise Regulation	159	170
Division of Federal Home Loan Bank Regulation	116	126
Division of Housing Mission and Goals	113	120
Division of Conservatorship Oversight and Readiness	18	23
Office of General Counsel	41	44
Division of Accounting and Financial Standards	29	32
Division of Research and Statistics	45	49
Office of Minority and Women Inclusion	17	23
Office of Equal Opportunity and Fairness	4	9
Office of Congressional Affairs and Communication	15	21
TOTAL FHFA	693	780
TOTAL FHFA OIG	120	155

[a] FY 2021 staffing numbers are on-board positions as of September 30, 2021.
[b] FY 2022 staffing numbers are budgeted positions. Budgeted positions may change over the course of the fiscal year as needs change.

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

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

The Division of Enterprise Regulation (DER) supervises the Enterprises and evaluates the safety and soundness of their financial condition and operations. DER contributes to the achievement of FHFA's strategic goals and strategic objectives through planning and executing risk-based examinations of the Enterprises, developing and preparing the annual reports of examination (ROEs), issuing supervision policy and examiner guidance, 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 condition and operation. The division oversees and directs all FHLBank examination activities, develops examination findings, and prepares ROEs. DBR monitors and assesses the financial condition and performance of the FHLBanks and OF and tests their compliance with laws and regulations through annual examinations, periodic visits, and monitoring and analysis. The division establishes supervisory policy and regulation for the FHLBanks and conducts FHLBank-focused research. DBR also conducts Affordable Housing Program (AHP) examinations of each FHLBank annually to promote compliance with program regulations and to evaluate the effectiveness of each FHLBank's AHP.

The Division of Housing Mission and Goals (DHMG) is responsible for oversight of the Enterprises' single-family and multifamily housing policies and programs, the Enterprises' and FHLBanks' affordable housing programs and fair lending compliance, and the Enterprises' regulatory capital policy. DHMG administers the affordable housing goals and Duty to Serve requirements for the Enterprises, as well as the affordable housing goals of the FHLBanks, and provides oversight of related FHLBank programs. DHMG monitors the Enterprises and the FHLBanks for fair lending risk and conducts targeted fair lending risk assessments on their policies, programs, and activities. DHMG's capital policy responsibilities include developing regulatory capital policy for the Enterprises and providing oversight of their Dodd-Frank Act Stress Tests, credit risk transfer programs, and counterparty financial eligibility standards. DHMG oversees and coordinates FHFA activities affecting housing finance and financial markets in support of FHFA's mission and the Director's responsibilities as a member of the Federal Housing Finance Oversight Board, the Financial Stability Oversight Board, and the Financial Stability Oversight Council.

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

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

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

The Division of Research and Statistics (DRS) serves as a policy, research, and data service center for the Agency. 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. 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 (MWOBs) 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 D&I examination activities, develops examination findings, and prepares annual D&I ROEs for the Enterprises, the FHLBanks, OF and CSS. OMWI conducts annual examinations, periodic visits, and monitoring and analysis of the FHLBanks, and OF. OMWI conducts continuous supervision of the Enterprises and CSS.

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 Complaint Process and the Harassment Prevention Program, protecting the rights of all parties involved in these processes. The office educates the workforce on their rights and responsibilities under civil rights laws. In addition, the office ensures that FHFA is compliant with EEO laws and regulations. In addition, the office develops tools, methodologies, and learning and education options to inform the workforce about how to address workplace conflict through various modalities of alternative dispute resolution.

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

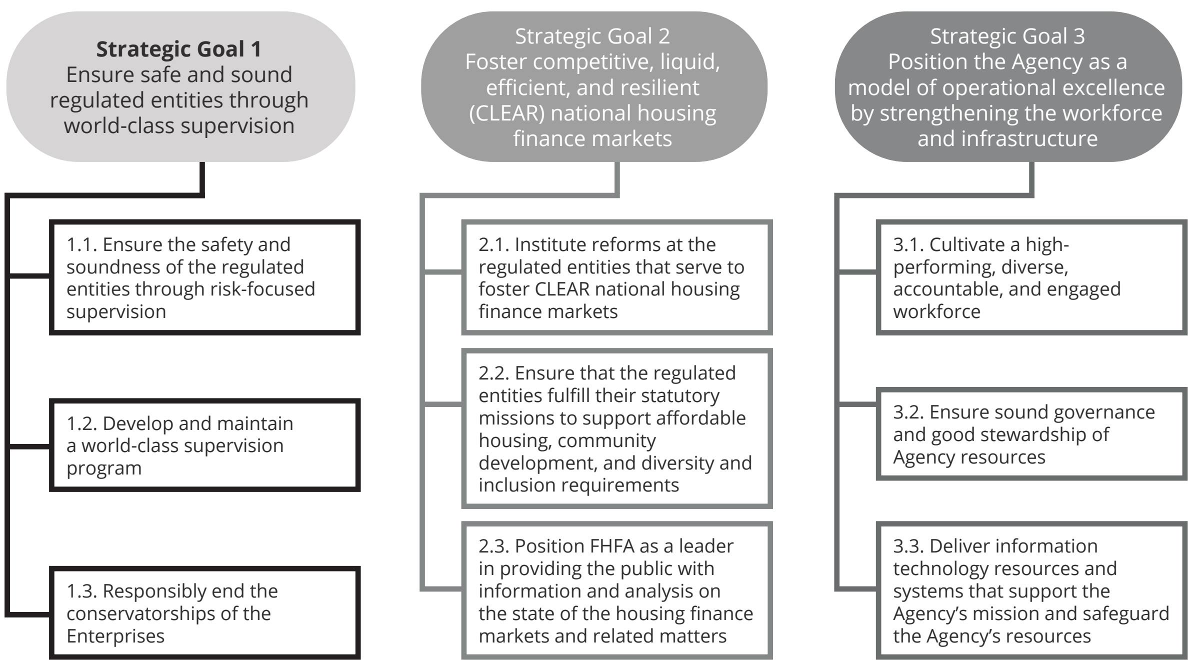
The Office of Inspector General (OIG) conducts independent audits, evaluations, compliance reviews, and investigations to help FHFA achieve its mission and goals and guard against waste, fraud, and abuse. OIG informs the Director, Congress, and the public of any problems or deficiencies relating to programs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

Performance Summary

Strategic Goals and Strategic Objectives

FHFA's Strategic Plan provides the foundation for Agency planning, budgeting, operations, and reporting. The Agency's Strategic Plan establishes long-term strategic goals to achieve FHFA's mission and the strategic objectives to achieve those strategic goals. It also identifies planned means and strategies to achieve the strategic objectives. Key elements from FHFA's 2021-2024 Strategic Plan[8] are presented in Figure 4, including the Agency's vision and mission, as well as the three strategic goals and their corresponding strategic objectives that were in effect during FY 2021, the time period covered by this report. The performance measures associated with the strategic objectives are presented on pages 29-53. Validation and verification activities, conducted to confirm that performance results are reported accurately, are described on page 28, and a template that FHFA uses to validate and verify its measures and data can be found in the Appendix on page 111.

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



Summary of Performance Measures and Results

For FY 2021, FHFA identified a total of 39 performance measures and associated targets to monitor progress toward achieving the Agency's strategic goals and strategic objectives. Data to assess performance for measures 3.1.1 and 3.1.2, will be available in CY 2022. Of the 37 performance measures in FY 2021 for which FHFA has data to assess performance, FHFA met the targets for 30 (81 percent) and did not meet the targets for 7 (19 percent). The overall results indicate progress toward achieving FHFA's goals and mission.

8 FHFA has published the Strategic Plan for FY 2021-2024 at https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2021-2024_Final.pdf. This Strategic Plan was developed prior to FHFA's transition under the new administration. In FY 2022, FHFA will publish a new Strategic Plan that will reflect the priorities of the Agency's new leadership.

Table 3 presents a summary of FHFA's FY 2021 results. More information on FHFA's performance organized by strategic goal can be found in the Performance Section, starting on page 25.

Table 3: Summary of Performance Measures and Results

Performance Measure	FY 2021 Target	FY 2021 Result
STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITES THROUGH WORLD-CLASS SUPERVISION		
Strategic Objective 1.1: Ensure the safety and soundness of the regulated entities through risk-focused supervision		
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2021	100 percent of the time	MET
1.1.1b: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks	100 percent of the time	MET
1.1.2a: Approve reports of examination by March 31, 2021 for the Enterprises	100 percent of the time	MET
1.1.2b: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	100 percent of the time	MET
1.1.5a: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and time frames	90 percent of the time	MET
1.1.5b: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and time frames	90 percent of the time	MET
Strategic Objective 1.2: Develop and maintain a world-class supervision program		
1.2.1: Conduct horizontal reviews to provide supervisory perspective on the application and the implementation of processes, activities, and initiatives at the Enterprises in the areas of credit, market, and operational risk, modeling/ data, and governance	4 horizontal reviews during FY 2021	MET
1.2.2: Expand regular qualitative and quantitative reporting by the Enterprises of counterparty information in the Call Report System	June 2021	MET
1.2.3: Develop an action plan to address improvement opportunities identified in FHFA's optimization study to further the development of a world-class supervision program	June 2021	MET
1.2.4: Conduct horizontal review of acquired member asset pricing and its effect on credit risk sharing structures at the FHLBanks	September 2021	MET
Strategic Objective 1.3: Responsibly end the conservatorships of the Enterprises		
1.3.1: Issue a final Enterprise Regulatory Capital Framework	December 2021	MET
1.3.2: Publish a proposed regulation requiring the Enterprises to submit resolution plans (living wills)	March 2021	MET
1.3.3: Issue a proposed rule on Enterprise Capital Planning	September 2021	NOT MET
1.3.4: Oversee the Enterprises' compliance with Senior Preferred Stock Purchase Agreement's targets for mortgage assets and indebtedness	Retained portfolio balances and debt limits are below the Senior Preferred Stock Purchase Agreement requirements of $250 billion and $300 billion, respectively, at each Enterprise	MET
1.3.5: Make recommendation to the Director regarding Common Securitization Solutions' structural options post-conservatorship	September 2021	MET
STRATEGIC GOAL 2: FOSTER COMPETITVE, LIQUID, EFFICIENT, AND RESILIENT (CLEAR) NATIONAL HOUSING FINANCE MARKETS		
Strategic Objective 2.1: Institute reforms at the regulated entities that serve to foster CLEAR national housing finance markets		
2.1.1: Update the minimum financial eligibility requirements for Enterprise sellers/servicers	June 2021	NOT MET
2.1.2: Publish annual guarantee fee report	December 2020	MET

Table 3: Summary of Performance Measures and Results		
Performance Measure	**FY 2021 Target**	**FY 2021 Result**
2.1.3: Document review of regulated entity public filings	Quarterly documentation of reviews within 45 days after the required filing date	MET
2.1.4: Issue a final rule on prior approval for Enterprise products	September 2021	NOT MET
Strategic Objective 2.2: Ensure that the regulated entities fulfill their statutory missions to support affordable housing, community development, and diversity and inclusion requirements		
2.2.1: Publish proposed Enterprise housing goals rule for 2022-24	June 2021	NOT MET
2.2.2: Issue annual ratings for each Enterprise's Duty to Serve performance in 2019	October 2020	MET
2.2.3: Complete implementation of the Language Access Plan	December 2020	MET
2.2.4: Determine that the regulated entities have satisfactorily addressed Matters Requiring Attention relating to their diversity and inclusion programs, in accordance with agreed-upon remediation plans and time frames	90 percent	MET
2.2.5: Conduct diversity and inclusion examinations of the Enterprises and the FHLBanks	12 exams during FY 2021	MET
Strategic Objective 2.3: Position FHFA as a leader in providing the public with information and analysis on the state of the housing finance markets and related matters		
2.3.1: Publish 12 monthly and 4 quarterly FHFA House Price Indexes	September 2021	MET
2.3.2: Publish annual Public Use Database	June 2021	NOT MET
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database	September 2021	MET
STRATEGIC GOAL 3: POSITION THE AGENCY AS A MODEL OF OPERATIONAL EXCELLENCE BY STRENGTHENING THE WORKFORCE AND INFRASTRUCTURE		
Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce		
3.1.1: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"	Positive responses equal to or higher than both the small agency and government-wide averages	DATA NOT AVAILABLE
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index is at or above the percent that the Office of Personnel Management considers an agency "Strength"	65 percent positive	DATA NOT AVAILABLE
3.1.3: Improve the number of days to hire	95 workdays	NOT MET
Strategic Objective 3.2: Ensure sound governance and good stewardship of Agency resources		
3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses	100 percent of the time	MET
3.2.2: Compete 75 percent or more of FHFA contracts	100 percent of the time	MET
3.2.3: Complete corrective actions to address audit recommendations in a timely manner	95 percent of the corrective actions to address Office of Inspector General recommendations are completed within one year of the resolution date	NOT MET
3.2.4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	Total dollar amount of contracts greater than the five-year average	MET
Strategic Objective 3.3: Deliver information technology resources and systems that support the Agency's mission and safeguard the Agency's resources		
3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	100 percent of the time	MET
3.3.2: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	99.5 percent of the time	MET
3.3.3: Determine average user response on FHFA help desk ticket surveys	4.5 rating on a scale of 0 to 5	MET

Looking Forward

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

PROMOTE EQUITABLE ACCESS TO HOUSING

FHFA identified the importance of ensuring that all borrowers and renters have access to a fair and sustainable housing finance system. One way to measure equity is the gap between white and minority borrowers; today, for example, the gap between white and black borrowers is greater than when housing discrimination was legal. Similarly, Latino, Asian, Pacific Islander, and American Indian borrowers all experience lower rates of homeownership than white borrowers. Moreover, multigenerational households, families living in rural areas or areas vulnerable to climate change, and persons with disabilities all face unique challenges and barriers to equitable housing opportunities. Recognizing that disparities in access to housing are long-standing and persistent, FHFA has instructed the Enterprises to identify tailored solutions to address the unique and diverse needs of underserved groups to ensure that all borrowers and renters have fair and equitable opportunities.

In FY 2022, FHFA will require the Enterprises to implement three-year Equitable Housing Finance Plans that describe each Enterprise's planned efforts to advance equity in housing finance. Under FHFA's oversight, each Enterprise will identify barriers to sustainable housing opportunities, set goals and undertake meaningful actions to address those barriers, and report on its progress. FHFA requested public input through a Request for Input (RFI) to aid the Enterprises in preparing their first plans and to aid FHFA in overseeing the plans. FHFA also hosted a virtual listening session in September 2021 to gather additional public input.

STRENGTHEN FAIR LENDING PROGRAMS

FHFA established the Office of Fair Lending Oversight in 2018 to ensure comprehensive fair lending oversight of the regulated entities. FHFA continues to build and advance its fair lending program to ensure that fair lending and equity considerations are integrated into the mission and business activities of its regulated entities. In FY 2021, FHFA released a Policy Statement on Fair Lending, communicating FHFA's commitment to oversight through monitoring and information gathering, conducting supervisory examinations, and engaging in administrative enforcement activities. FHFA also required the Enterprises to submit fair lending reports. Select data from these reports were shared with the public on FHFA's website.

During FY 2022, FHFA will continue to strengthen its supervisory program by issuing supervision guidance describing its fair lending examination procedures and setting appropriate expectations for Enterprise oversight of their fair lending responsibilities. FHFA will also meet regulary with the U.S. Department of Housing and Urban Development (HUD) under the recently signed Memorandum of Understanding (MOU) between the two agencies. The meetings will enhance joint enforcement of fair lending and fair housing laws by promoting information sharing, coordination on investigations, compliance reviews, and ongoing monitoring. Finally, FHFA will continue to use its administrative enforcement authority and authority as conservator to address significant fair lending risks or violations of fair housing laws by the Enterprises.

FHFA does not tolerate housing discrimination. By strengthening FHFA's fair lending program, FHFA will ensure that the housing finance system provides fair and equitable opportunities to all Americans.

PROPOSED RULEMAKING TO AMEND THE ENTERPRISE REGULATORY CAPITAL FRAMEWORK

On September 15, 2021, FHFA issued a notice of proposed rulemaking (NPR) to amend the Enterprise Regulatory Capital Framework (ERCF) to better reflect the risks inherent in the Enterprises' business models and to encourage the distribution of credit risk from the Enterprises to private investors. The proposed rule would recalibrate the prescribed leverage buffer amount ("leverage buffer") and refine the risk-based capital treatment of credit risk transfer (CRT) transactions. These proposed amendments would reduce taxpayer exposure to risks posed by the Enterprises, encourage prudent risk management so that the Enterprises can carry out their missions in a safe and sound manner throughout the economic cycle, and ensure that the Enterprises' leverage requirements provide a credible backstop to their risk-based capital requirements.

Specifically, the proposed rule would replace the fixed 1.5 percent leverage buffer with a dynamic leverage buffer based on each Enterprise's share of the total residential mortgage market, which will be updated annually. In addition, the proposed rule would reduce the risk weight floor for retained CRT exposures from 10 percent to 5 percent and eliminate the duplicative overall effectiveness adjustment within the calculation of risk-based capital requirements for CRT. The proposed changes to the CRT framework would reduce the capital disincentives to transferring credit risk from the risk-based capital requirements framework, while continuing to ensure that all retained exposures within the CRT framework are meaningfully capitalized, however remote the risk. In FY 2022, FHFA will consider public comments on the proposed rule and issue a final rule.

CLIMATE AND NATURAL DISASTER RISKS

FHFA recognizes that climate and natural disaster risks pose a serious threat to the U.S. mortgage finance system. In FY 2022, FHFA will continue to work on ensuring that the climate and natural disaster risks are accounted for through our supervision and oversight of our regulated entities. Part of this effort will be the continuation of FHFA's ongoing work, such as the Agency's coordination with our regulated entities, government agencies, and other external stakeholders to support borrowers and renters affected by natural disasters.

In FY 2022, FHFA will work to ensure that its regulated entities prioritize and establish adequate governance structures to ensure that the effects of climate change are considered in their decision making. To adequately assess climate-related financial risks, the Agency will work with its regulated entities to establish and evaluate climate-related scenario analyses. In addition, FHFA will continue to work collaboratively with other government agencies on issues related to the effects of climate change on vulnerable communities and on challenges related to data limitations and incomplete tools to assess climate risks.

Financial Summary

Analysis of Financial Statements

OVERVIEW

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

HOW IS FHFA FINANCED?

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

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 2021, FHFA assessed the entities a total of $335.2 million, including $49.9 million to support OIG.

Under HERA, FHFA is authorized to retain a working capital fund for unforeseen or emergent requirements, which can be funded through a special assessment to the entities or through retention of unobligated balances at the end of the fiscal year. At the end of FY 2021, the FHFA working capital fund had a balance of $38.4 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 U.S. GAAP. FHFA also received an opinion that it maintained, in all material respects, effective internal control over financial reporting. GAO found no instances of reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements it tested.

FHFA'S FINANCIAL STATEMENTS

The principal financial statements present FHFA's financial position (Balance Sheet), Statement of Net Cost of Operations, Statement of Changes in Net Position, and Statement of Budgetary Resources for FY 2021 and FY 2020. GAO's audit report, along with complete financial statements and notes for FY 2021 and FY 2020, appear on pages 67-89.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

FY 2021 COVID-19 – Financial Impact on FHFA

As a non-appropriated entity, FHFA used its existing resources to support necessary activities to ensure safety of its employees and facilities, continued mandatory teleworking activities, and implemented

Agency activities and policy changes to support the regulated entities. FHFA did not receive additional funding to support these activities. All costs are included in appropriate financial statements discussed below.

What Is FHFA's Net Position and Net Costs?

BALANCE SHEET (ASSETS - LIABILITIES = NET POSITION)

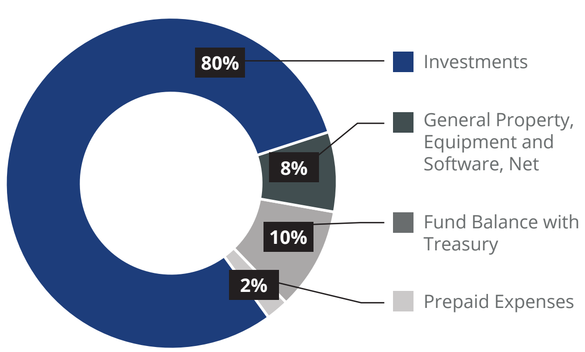
The Consolidated Balance Sheet presents, as of September 30, 2021, the recorded value of assets (funding, property, and amounts owed to FHFA), and liabilities (amounts FHFA owes, retained or managed by FHFA). The difference between the assets and liabilities represents FHFA's net position.

ASSETS

At year-end FY 2021, FHFA had $162.1 million in assets. The largest asset groups include: Investments (80 percent); General Property, Equipment, and Software, Net (8 percent); and Fund Balance with Treasury (10 percent) as displayed in Figure 5. FHFA had less than one percent in Accounts Receivable at the end of the year. Accounts Receivable is not displayed in Figure 5 since it accounts for less than one percent.

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 in accordance with statutory authorities.

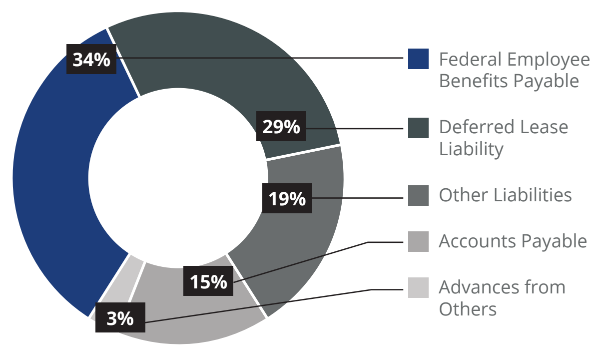
Figure 5: Distribution of Total Assets for FY 2021



LIABILITIES

At year-end FY 2021, FHFA had $60.5 million in liabilities. FHFA's major liabilities (amounts owed by FHFA to other entities) include Federal Employee Benefits Payable (34 percent), Deferred Lease Liability (29 percent), Other Liabilities (19 percent), and Accounts Payable (15 percent), as displayed in Figure 6. The largest liability, Federal Employee Benefits Payable, consists of both unfunded leave for FHFA employees and FECA Actuarial Liability. The largest component in the Federal Employee Benefits Payable category is Unfunded Leave, consisting of amounts resulting from accumulated, unused employee leave not covered by currently available funding sources.

Figure 6: Distribution of Total Liabilities for FY 2021



The second largest category, Deferred Lease Liability (rent) is the difference at year-end between the sum of monthly cash disbursement paid to date for rent and the sum of average monthly rent calculated based on the term of the lease. Determination and recording of deferred rent 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 third largest liability is Other Liabilities. The largest component of this category is payroll accruals.

NET POSITION

FHFA's net position (assets-liabilities) increased 35 percent, or $26.5 million, in FY 2021, largely due to the growth in investments. The Total Asset increase 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 conservatorship-related activities. The three-percent change in Total Liabilities is mainly because of the increase of $2.2 million in Federal Employee Benefits Payable. A comparison of the condensed FY 2021 and FY 2020 Balance Sheets is displayed in Table 4. The complete Balance Sheets can be found on page 67.

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

	FY 2021	FY 2020	Percent change
Total Assets	$162,105	$133,870	21%
Total Liabilities	$60,516	$58,761	3%
Total Net Position	$101,589	$75,109	35%
*Amounts are rounded for presentation purposes.			

NET COSTS

The Statements of Net Cost reflects gross cost of operating the Agency, by strategic goal, less related revenues. The Statements of Net Costs represents the full cost of operating FHFA, consolidated with the costs of operating the FHFA OIG. Gross program costs for FY 2021 are $317.6 million, which is an increase of $20.9 million above the FY 2020 gross program costs of $296.7 million.

How Does FHFA Generate Revenue?

In accordance with HERA, FHFA collected through the semi-annual assessment process $335.2 million during FY 2021, which included a $49.9 million assessment for costs related to the operations of the FHFA OIG. Regulated entity assessments account for approximately 99.5 percent of Agency revenues.

Less than 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 2021 was 7 percent greater than FY 2020 primarily due to higher assessments for legal and financial services related to efforts to develop a plan to end the conservatorships of the Enterprises.

FHFA's summary costs and revenue are reflected in the Statements of Net Cost for FY 2021 and FY 2020 as presented in Table 5.

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

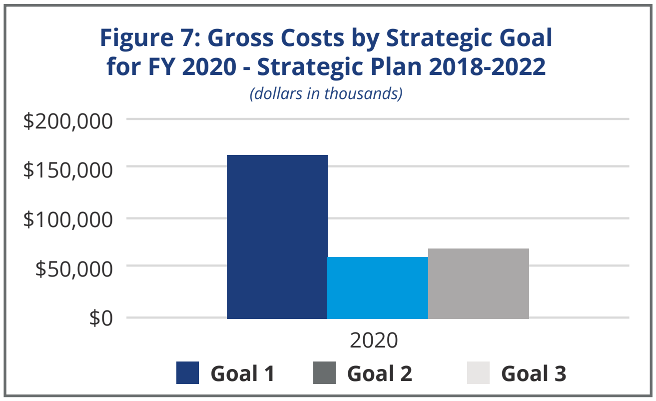
	FY 2021	FY 2020
Costs	$317,555	$296,618
Revenue	$(336,854)	$(314,010)
Net Cost from Operations	$(19,299)	$(17,392)
*Amounts are rounded for presentation purposes.		

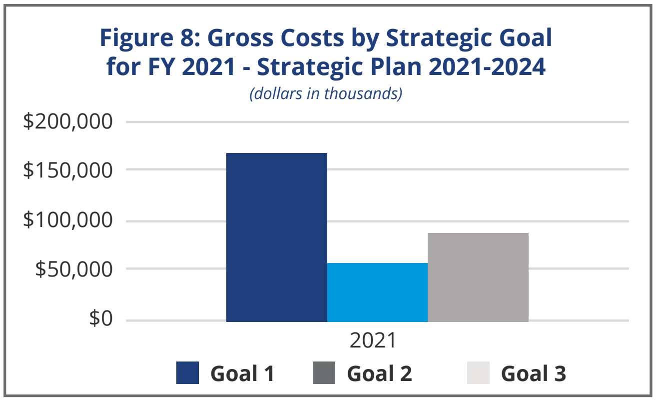
How Does FHFA Align Costs to Strategic Goals?

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

Effective and efficient agency-wide services and management and administrative systems are essential to achieve FHFA's mission and strategic goals. Indirect costs are distributed proportionately to the three strategic goals based on the percentage of direct program costs allocated to each goal to the total direct program costs for the Agency (individual program costs/total direct program costs). FHFA OIG costs are allocated as part of FHFA's indirect costs. The distribution of FHFA's gross costs by strategic goal for FY 2021 and FY 2020 is presented in Figure 7. The comparison between years is provided separately due to the change in the Strategic Goals between FY 2021 and FY 2020, as the data is not a direct comparison between the two years.

The FY 2020 Strategic Plan can be found at FHFA Strategic Plan Fiscal Years 2018-2022.





In FY 2021, Goal 1 is FHFA's largest program area at $170.0 million or 54 percent of total gross costs. The next largest program area is Goal 3 at $89.2 million, or 28 percent. Goal 2 is the smallest of the three program areas at $58.4 million. Overall, Gross Costs increased between the years primarily due to the strategic direction for conservatorship-related activities and the agency's focus on developing a world-class research capacity.

How Does FHFA Comply with Internal Controls?

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

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

During FY 2021, FHFA adhered to the internal control requirements of FMFIA and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls (ECIC) met quarterly to oversee internal controls and provide recommendations to the FHFA Acting Director on the effectiveness of FHFA's internal controls.

During FY 2021, FHFA monitored and assessed the following areas:

FHFA OIG

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 Inspector General for Internal Controls and includes members that constitute a senior team that assesses internal controls. The assessment team includes the deputy inspectors general, the chief counsel, 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 Acting Inspector General sign an assurance statement to the FHFA Acting 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. The Acting Inspector General provided a statement of assurance to FHFA.

RELIABILITY OVER FINANCIAL REPORTING

FHFA's Office of Planning, Performance, and Risk (OPPR) assessed the Agency's financial reporting controls using a risk-based approach. The Office of Budget and Financial Management reviewed the completed assessment and results. The assessment determined that there were no material weaknesses that adversely affect the reliability of the financial reporting.

RELIABILITY OVER NON-FINANCIAL REPORTING

Assessment teams from FHFA divisions and offices reviewed controls over a sample of non-financial reports using guidance from the GAO *Standards for Internal Control in the Federal Government*, GAO 14-704G, (GAO Green Book).[9] Division management officials and staff reviewed the completed assessments. OPPR reviewed the completed assessments and results from across the Agency. The assessment determined that there were no material weaknesses that adversely affect the reliability of the non-financial reporting.

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

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. The assessment determined that there were no material weaknesses that adversely affect the compliance with laws and regulations.

EFFECTIVENESS AND EFFICIENCY OF OPERATIONS

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

ASSESSMENT REPORTING

The ECIC reviewed the results from all five areas described above. In compliance with FMFIA requirements, the FHFA Acting Director, on the basis of a recommendation from 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, 2021, were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

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 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 (FISMA) 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. 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.[10]

The audit concluded that both FHFA and FHFA OIG's Information Security Programs operated an effective information security program and complied with FISMA and related information security policies and procedures, standards, and guidelines. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA OIG information security programs. The auditor reviewed and verified corrective actions taken by FHFA and FHFA OIG during the FY 2020 FISMA audit.

PROMPT PAY

The Prompt Payment Act requires federal agencies to make timely payments to vendors and improve the cash management practices of the government by encouraging the use of discounts when they are justified. This also means that FHFA must pay its bills within a narrow window of time. In FY 2021, the dollar amount subject to prompt payment was $87.6 million. The amount of interest penalty paid in FY 2021 was $17.60.

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.

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

FHFA Statement of Assurance

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

October 21, 2021

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2021

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, 2021, 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 controls 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, 2021, 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 thisreview, FHFA can provide reasonable assurance that its financial management systems substantially complied with the requirements for federal financial management systems as of September 30, 2021.

Sincerely,

Sandra L. Thompson
Acting Director

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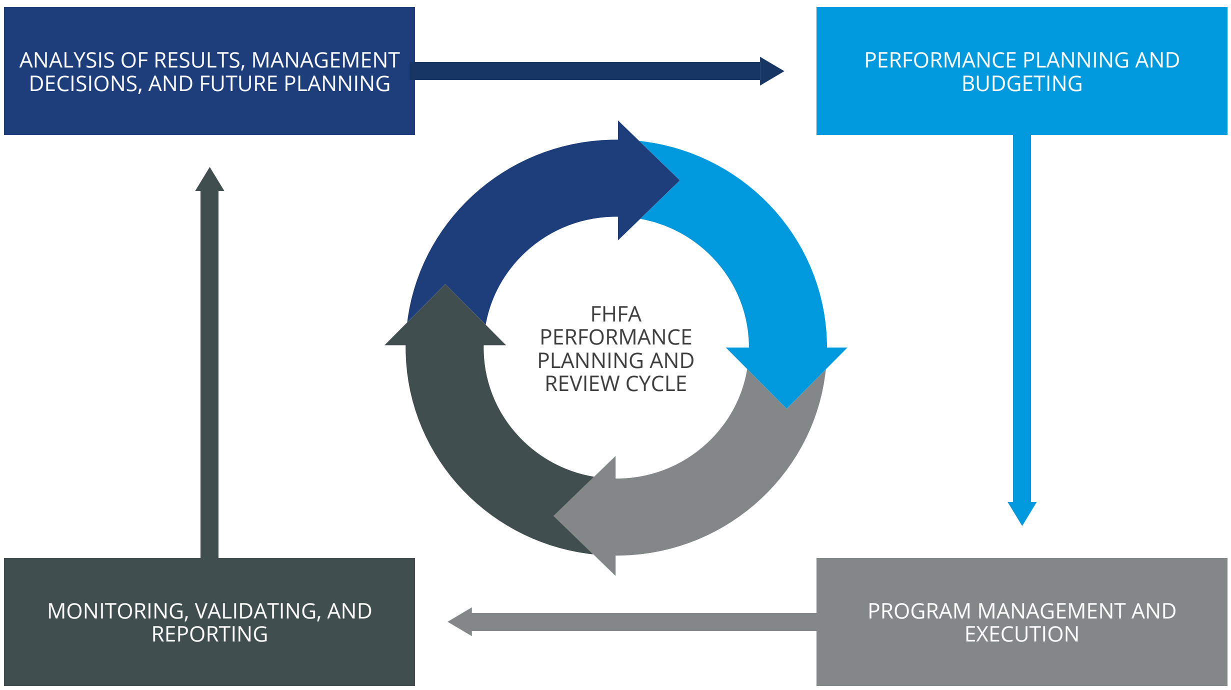
PERFORMANCE SECTION

FHFA's Performance Planning and Review Process

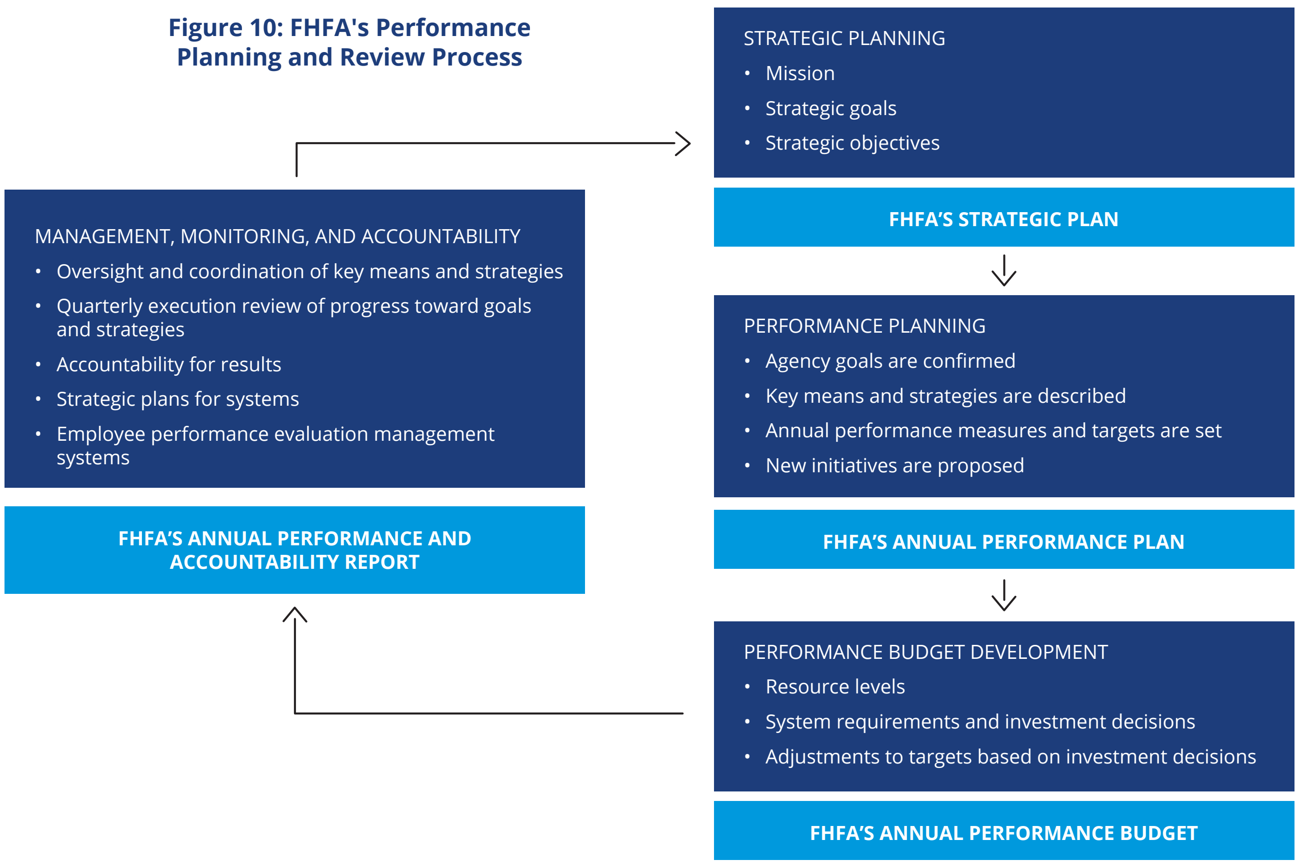
This section provides an overview of FHFA's performance planning and review framework and processes. FHFA's performance management process involves a recurring cycle of planning; program management and execution; measurement, monitoring and evaluation; verification, validation of data, and reporting; and analysis of results that then influences management decisions and future planning. Figure 9 illustrates key elements of FHFA's approach to performance management.

Figure 9: FHFA's Performance Management Cycle



The first step in FHFA's performance management process is to develop the Agency's Strategic Plan, which identifies FHFA's strategic goals (longer-term outcome level results), strategic objectives (intermediate results that need to be achieved to accomplish the strategic goals), and means and strategies for achieving the strategic objectives. The Strategic Plan that forms the basis of this FY 2021 Performance and Accountability Report (PAR) was published on October 27, 2020. The Agency's Annual Performance Plan (APP) provides more operational detail on how progress will be made toward the strategic goals and strategic objectives and identifies performance measures with annual targets to track progress toward the strategic objectives. FHFA conducts quarterly performance reviews of progress toward annual performance measure targets. Goal leaders submit quarterly data for the performance measures and targets for which they are responsible. Performance data on results are validated and verified, then reported in the annual PAR. FHFA's senior leadership reviews the quarterly reports to monitor progress toward achieving planned performance and strategic goals. Performance data are reviewed and analyzed throughout the year to monitor the Agency's progress in achieving planned performance levels and are used to influence management and planning decisions, which feed into the next annual performance planning process. Figure 10 illustrates in more detail FHFA's performance planning and review process.

Figure 10: FHFA's Performance Planning and Review Process



Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2021 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.

FHFA has included a template of its Performance Measure Validation and Verification form in the Appendix on page 111.

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

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

Strategic Goal 1 – Selected Accomplishments

FHFA achieved several accomplishments in FY 2021 that contributed to achieving the strategic goal. Selected FY 2021 accomplishments include:

STRENGTHENED AGENCY CAPABILITIES FOR SUPERVISING THE ENTERPRISES

- FHFA enhanced its overall supervision program. As a result, the Agency issued several new internal Operating Procedure Bulletins (OPBs). These OPBs provide significantly enhanced guidance for conducting and documenting examination-related activities and foster consistent application of supervision program standards across the Fannie Mae and Freddie Mac examination team branches.

- The Agency also made several organizational changes to strengthen its supervision of the Enterprises. FHFA aligned the Fannie Mae and Freddie Mac examination team branches with the Agency's Risk and Policy branches to enhance collaboration and communication across the offices and branches, as well as strengthen FHFA's ability to regulate the Enterprises. Furthermore, FHFA created a new office in DER to provide enhanced earnings, debt, and capital analysis; market surveillance; and monitoring and inspecting of the Enterprises' unregulated nonbank sellers/servicers.

PREPARED REGULATED ENTITIES AND MARKETS FOR LONDON INTERBANK OFFERED RATE (LIBOR) TRANSITION

- 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 (FCA), 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. On March 5, 2021, the FCA announced that the publication of 1-week and 2-month U.S. dollar LIBOR will cease beginning in 2022, and the publication of other U.S. dollar LIBOR settings will cease or be deemed unrepresentative after June 30, 2023.

- FHFA serves as an ex officio member and the Enterprises serve as members 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's Reference Rate Steering Committee is working with its regulated entities as they monitor exposure to LIBOR and transition to an alternative rate in a safe and sound manner.

- The Secured Overnight Financing Rate (SOFR) is an alternative rate selected by the ARRC as a replacement for LIBOR in the United States. FHFA regulated entities are now regular issuers of SOFR indexed debt and offer SOFR-based alternatives rather than existing LIBOR products. FHFA worked with the Enterprises to develop SOFR-based adjustable rate mortgages (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 ceased accepting LIBOR-based products after the end of 2020 and began offering SOFR-based products in 2020 and early 2021. Each Enterprise has adopted the International Swaps and Derivatives Association Protocol, a set of industry-adopted amendments that enable an orderly transition to SOFR upon LIBOR cessation for derivatives contracts.
- FHFA issued a public supervisory letter to the FHLBanks alerting them to the need to understand the risks associated with new non-SOFR alternative reference rates to LIBOR and to consult with their Examiners-in-Charge before referencing those rates.

BUILT UP FHFA'S RESOLUTION CAPABILITIES

- HERA, which established FHFA, granted it broad powers to resolve a distressed or failed regulated entity. Shortly after HERA was enacted, FHFA placed both Enterprises in conservatorships to maintain the stability of the national housing finance system. FHFA is working to establish its resolution capabilities to be as prepared as possible in the event of a failure of any of its regulated entities, with the primary goal of ensuring that a successor entity could continue supporting the national housing finance market during and after any resolution. FHFA is using both its conservatorship and regulatory authorities to develop these capabilities. These activities also align with the recently finalized Enterprise Resolution Planning rule, under which the Enterprises will be required to submit resolution plans to FHFA by July 2023.

FINALIZED ENTERPRISE CAPITAL RULE AND PROPOSED ENHANCEMENTS

- On November 18, 2020, FHFA published a final rulemaking that established a new regulatory capital framework for the Enterprises that is designed to ensure the safety and soundness of Fannie Mae and Freddie Mac throughout the economic cycle by establishing robust regulatory capital requirements to be met with high quality capital. On September 15, 2021, FHFA issued an NPR that would amend the ERCF to refine the prescribed leverage buffer amount and the capital treatment of CRT to better reflect the risks inherent in the Enterprises' business models and to encourage the distribution of credit risk away from taxpayers to private investors that are better positioned to take this risk.

Strategic Objective 1.1: Ensure the safety and soundness of the regulated entities through risk-focused supervision

FHFA assesses the safety and soundness of the regulated entities' operations through annual examinations, targeted examinations, ongoing monitoring, and reviews, as appropriate. FHFA uses a uniform examination rating system to assign ratings to the Enterprises, the FHLBanks, OF, and CSS. FHFA annually assigns each regulated entity a composite rating for the overall condition of the entity. In FY 2021, FHFA monitored eight measures for Strategic Objective 1.1 and met the targets for all eight measures.

Table 6: Strategic Objective 1.1 – Summary of Performance Measures and Results							
Strategic Objective 1.1: Ensure the safety and soundness of the regulated entities through risk-focused supervision							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2021	MET	MET	MET	MET	NOT MET	100 percent of the time	MET
1.1.1b: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.2a: Approve reports of examination by March 31, 2021 for the Enterprises	MET	MET	NOT MET	MET	MET	100 percent of the time	MET
1.1.2b: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.5a: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and time frames	MET	MET	NOT MET	MET	MET	90 percent of the time	MET
1.1.5b: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and time frames	NOT MET	NOT MET	MET	MET	MET	90 percent of the time	MET

PERFORMANCE MEASURE 1.1.1A

Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2021

PERFORMANCE MEASURE 1.1.1B

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

Risk-based examinations focus FHFA resources on areas of greatest risk. Risk-based scope documents communicate important areas of focus to staff and aid in the overall examination planning process. FHFA met this measure for FY 2021 as explained below.

- The Enterprises: FHFA examiners examine each Enterprise and CSS on a continuous basis. Under COVID-19, all examination activities have been conducted through FHFA's telework flexibilities as the Enterprises primarily operated remotely. DER maintains a written risk-based examination plan for each Enterprise for every annual examination cycle. To conduct risk-focused supervision and examinations, the examination plans should be approved prior to the commencement of the upcoming examination cycle. The target date for approval of the 2021 examination plans was January 31, 2021. Each plan enumerates examination activities for different risk management and business areas. Examination areas include credit risk, market risk, operational risk, model risk, and governance. Examination plans are reviewed during the examination cycle and may be amended to reflect changes in risk profile of the Enterprise's operations. The 2021 examination plans for Fannie Mae and Freddie Mac were approved on December 31, 2020.

- FHLBanks and OF: FHFA examines each of the FHLBanks and OF annually on a CY basis. Examinations have specified beginning and end dates and are generally performed at a pace of three entities each quarter. The examination plans are called scope memoranda, which includes analyses of the institution's risks, a schedule of examination work, and details regarding staff responsibilities. For FY 2021, scope memoranda were in place prior to the start of every FHLBank and OF examination.

PERFORMANCE MEASURE 1.1.2A

Approve ROEs by March 31, 2021 for the Enterprises

PERFORMANCE MEASURE 1.1.2B

Approve ROEs within 90 days after completing examination work for each of the FHLBanks

FHFA communicates supervisory results, findings, and expectations for remedial action to the Enterprises, the FHLBanks, and OF through supervisory correspondence and ROEs. ROEs summarize key examination findings for the prior year and include ratings assigned in accordance with the Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk (CAMELSO) ratings framework. In FY 2021, FHFA met the target dates for approving ROEs for the Enterprises as well as the FHLBanks and OF, ensuring timely documentation of FHFA's overall assessment of the safety and soundness of the regulated entities' operations and contributing to achievement of Strategic Objective 1.1.

- The Enterprises: FHFA summarizes the Agency's view of the safety and soundness of the Enterprise's operations based on examination work of the previous year. The Agency communicates and explains the CAMELSO composite and component ratings and lists all outstanding matters requiring attention. FHFA documents this overall assessment of the safety and soundness of Enterprise operations by preparing an annual ROE for each Enterprise. The target date for approval by the Deputy Director for each ROE is March 31. FHFA approved the ROEs for both Fannie Mae and Freddie Mac by the target date of March 31, 2021.
- FHLBanks: ROEs summarize the Agency's examination conclusions and principal findings, communicating them to the Bank and outlining supervisory expectations. The Agency approves each Report of Examination within 90 days of the exit meeting that concludes examination work. FHFA assess this measure's status each quarter, typically with three ROEs per quarter. During FY 2021, the FHFA approved each ROE within 90 days of the exit meetings.

FINANCIAL CONDITION OF THE ENTERPRISES

Under the Preferred Stock Purchase Agreement (PSPA), the Enterprises are constrained by their ability to build capital while in conservatorship. Until recently, the Enterprises were required to pay out any excess capital beyond a combined $6.0 billion as dividend to the senior preferred shares, a provision also known as the net worth sweep. As amended in September 2019, FHFA and Treasury agreed to increase the Capital Reserve Amount to $25.0 billion for Fannie Mae[11] and $20.0 billion for Freddie Mac[12] beginning with the July 1, 2019 dividend period. In January 2021, FHFA and Treasury again amended the PSPAs to effectively end the net worth sweep through a Letter Agreement that further increased the amount of retained earnings each Enterprise could keep as of October 1, 2020 to the amount of adjusted total capital necessary to meet the capital requirements and buffers set forth in the final capital rule.[13] Consequently, the Enterprises' net worth increased to $42.2 and $25.3 billion for Fannie Mae and Freddie Mac, respectively, by the end of FY 2021. However, the agreement also increases the liquidation preference[14] of the Senior Preferred Stock by the amount of any increase in the Enterprises' net worth each quarter. In September 2021, FHFA and Treasury suspended

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

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

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

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

certain provisions added to the PSPA in January 2021.[15] The suspended provisions include limits on the Enterprises' cash windows (loans acquired for cash consideration), multifamily lending, loans with higher risk characteristics, and second homes and investment properties. The Enterprises will continue to build capital under the continuing provisions of the PSPAs. FHFA also continues to direct the Enterprises to operate in a safe and sound manner consistent with their statutory mission and to foster resilient housing finance markets given prevailing housing market conditions, which include elevated demand relative to available inventory. This suspension will provide FHFA time to review the extent to which certain provisions added in January 2021 are redundant or inconsistent with existing FHFA standards, policies, and directives that mandate sustainable lending standards.

The housing market remained robust in FY 2021, as housing demand is strong as a result of continued historically low mortgage rates. This, combined with a shortage of houses for sale, led to sharp house price growth in FY 2021. Such market conditions significantly increase the Enterprises' net interest income and credit-related income. The Enterprises' higher net interest income is primarily driven by an increase in net amortization income as refinancing activity remains elevated due to the continued low-interest-rate environment. In addition, the realized house price appreciation of 4.5 percent[16] as of September 30, 2021 contributed to higher credit-related income as higher house prices decreases both the probability and severity of expected credit losses.

The Enterprises' ownership of seriously delinquent single-family loans, defined as loans that are more than 90 days overdue, decreased in FY 2021 compared to FY 2020 as borrowers exit forbearance due to improving economic conditions a year on from the COVID-19 pandemic. However, a significant majority of the single-family serious delinquent loan additions in the first nine months of 2021 have been in a COVID-19-related forbearance. The number of loans in forbearance as of September 30, 2021 was approximately 206,000 and 148,000, compared to 703,000 and 342,000 as of September 30, 2020 at Fannie Mae and Freddie Mac, respectively. As of September 30, 2021, the single-family serious delinquency rates were 1.62 percent and 1.46 percent, respectively, for Fannie Mae and Freddie Mac. By comparison, on September 30, 2020, the single-family serious delinquency rates were 3.20 percent and 3.04 percent, respectively, for Fannie Mae and Freddie Mac. The Enterprises expect the COVID-19 pandemic to result in continued elevated single-family serious delinquency rates over the next several quarters. FHFA is closely monitoring the Enterprises' assessment of the effects of COVID-19 and the related risk management practices to ensure identification, monitoring, and management of related credit risks.

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 2021, as in prior years,[17] 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 because of declining retained portfolios and reduced amortization income. In addition, future increased CRT volumes could also reduce income, while protecting the Enterprises from stressed losses. While smaller retained portfolios and increased CRT volumes 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.

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

16 Home price growth rate obtained from Fannie Mae 10-Q/K – calculated using property data on loans purchased by the Enterprises and other third-party sales data. Refer to Fannie Mae's Q3 2021 10-Q's MD&A disclosures on page 9 for further detail.

17 https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Annual-Report-to-Congress-2020.pdf.

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. As of September, 30, 2021, Fannie Mae had not entered into new CRT transactions since the first quarter of 2020.

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

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

Table 7: Enterprise Financial Results Summary of First 3 Calendar Quarters of 2021 and Full Calendar Year 2020
(dollars in billions)

	Fannie Mae					Freddie Mac			
	2021			2020 Annual		2021			2020 Annual
	Q1	Q2	Q3			Q1	Q2	Q3	
Net Income (Loss)	$5.0	$7.2	$4.8	$11.8		$2.8	$3.7	$2.9	$7.3
Comprehensive Income (Loss)*	$5.0	$7.1	$4.8	$11.8		$2.4	$3.6	$2.9	$7.5

*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, 2021. All 11 FHLBanks were profitable, with a combined net income of $2.0 billion on $4.0 billion of net interest income after provision for credit losses, but performance was lower than the $3.0 billion and $4.5 billion earned, respectively, in the prior 12-month period. The FHLBanks recaptured $106 million of losses through interest income previously taken as credit other-than-temporary impairments. Operating expenses totaled $1.3 billion for the 12-month period that ended September 30, 2021. FHLBank advances decreased by $129.0 billion over the past twelve months, resulting in $350.0 billion of advances outstanding at September 30, 2021. Advances represented 49.1 percent of total FHLBank System assets. The balance of mortgages purchased from FHLBank members was $56.1 billion, or 7.9 percent of total FHLBank System assets. During the 12-month period ending September 30, 2021, the FHLBanks purchased $14.1 billion of mortgages and collected principal payments of $25.2 billion. The FHLBanks' remaining assets were primarily investments, which include liquidity assets,[18] MBS, and other investments. Investments totaled

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

$301.6 billion and represented 42.3 percent of FHLBank System assets. Of the total, liquidity assets (including cash and Treasury securities) represented $154.9 billion,[19] while total MBS was $121.7 billion. Most of the MBS portfolio was agency MBS ($110.7 billion or 90.9 percent), with only $2.3 billion (1.9 percent) of private-label MBS. Aggregate consolidated obligations, which is the debt issued jointly and used by each FHLBank to fund its operations, totaled $642.0 billion as of September 30, 2021, of which 31.8 percent were discount notes. Consolidated obligations with a remaining contractual maturity of less than one year represented 63.1 percent of total consolidated obligations. Table 8 provides a summary of the FHLBanks' financial results through September 30, 2021.

Table 8: FHLBanks' Financial Results Summary of First 3 Calendar Quarters of 2021 and Full Calendar Year 2020
(in $millions)

	Net Income (Loss)*			
	2021			2020 Annual
	Q1	Q2	Q3	
FHLBank of Boston	21	6	17	120
FHLBank of New York	72	75	66	442
FHLBank of Pittsburgh	38	12	23	210
FHLBank of Atlanta	43	57	27	255
FHLBank of Cincinnati	19	0	6	276
FHLBank of Indianapolis	30	17	20	88
FHLBank of Chicago	32	78	77	374
FHLBank of Des Moines	66	47	47	362
FHLBank of Dallas	48	28	41	199
FHLBank of Topeka	44	33	37	118
FHLBank of San Francisco	94	55	71	335
FHLBank System Total Net Income	505	409	431	2,780

** Numbers may not add due to rounding*

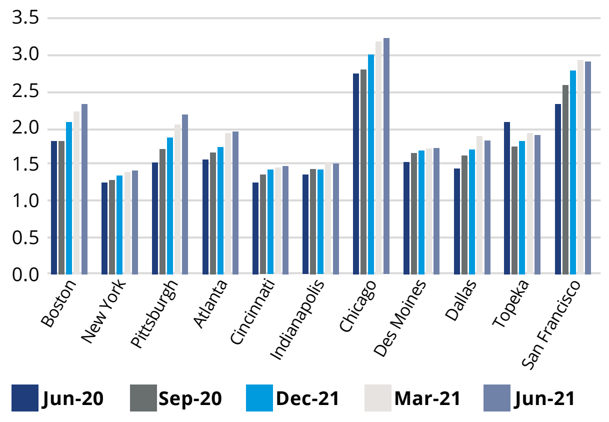
19 On January 1, 2019, FHFA began counting Treasury securities toward the FHLBanks liquidity as part of the new FHLBank Liquidity Guidance in Advisory Bulletin 2018-07.

PERFORMANCE MEASURE 1.1.3

Ensure a quarterly Market Value of Equity (MVE) to par value of capital stock ratio greater than or equal to one for each FHLBank

The MVE to par value of capital stock (PVCS) ratio is an indicator of each FHLBank's condition. A ratio of one or above is desirable because it reflects a FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. FHFA uses FHLBank reporting by way of the Call Report System (CRS) to verify that the MVE-to-par ratio is greater than or equal to one at each FHLBank at quarter end. During 2021, each FHLBank reported market value information to FHFA for the preceding quarter. All FHLBanks reported MVE greater than the PVCS.

Figure 11: Quarterly MVE to PVCS Ratios



PERFORMANCE MEASURE 1.1.4

Ensure each FHLBank is adequately capitalized on a quarterly basis

Capital adequacy is a critical component of safe and sound FHLBanks. FHFA determines the capital classification for each FHLBank for the prior quarter and communicates it to the Bank. These communications are made via letter and were in accordance with Subpart A of Part 1229 of FHFA's rule, "Capital Classifications and Prompt Corrective Action." In each quarter of 2021, FHFA deemed all FHLBanks "adequately capitalized" for the prior quarter and communicated these classifications to the FHLBanks via letter.

PERFORMANCE MEASURE 1.1.5A

Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention (MRAs) in accordance with agreed upon remediation plans and time frames

PERFORMANCE MEASURE 1.1.5B

Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness MRAs in accordance with agreed upon remediation plans and time frames

Where there is a significant supervisory concern or violation of law or regulation by one of the regulated entities, FHFA may issue a MRA that requires the entity's board of directors and/or management take corrective action to address deficiencies and violations. FHFA tracks the remediation of MRAs to ensure that the regulated entity has addressed the supervisory concern or violation of law or regulation. The FY 2021 target for Performance Measure 1.1.5 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 time frames 90 percent of the time.

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

- The Enterprises: The Enterprises address MRAs by submitting proposed remediation plans to FHFA for review and non-objection. Each non-objected remediation plan includes a time frame for completion. Enterprise management executes the actions required in each remediation plan and submits documentation demonstrating remediation activities to the Enterprise's internal audit function for validation. For each MRA for which an Enterprise submits a closure package, which includes the internal audit function's validation, to FHFA between June 1 of the prior fiscal year and May 31 of the current fiscal year, FHFA reviews the Enterprise's actions and the internal audit function's validation by the end of the fiscal year to determine whether the Enterprise has satisfactorily addressed the MRA. In FY 2021, the Enterprises satisfactorily addressed 100 percent of their safety and soundness MRAs in accordance with agreed upon remediation plans and time frames, which exceeds the target set for this measure.
- FHLBanks and OF: FHFA gathers information about MRA resolution and determines whether the Bank or OF addressed MRAs outstanding prior to the examination within agreed upon time frames or if it is sufficiently on track to address them within the established remediation plan. FHFA followed up on outstanding MRAs to determine whether the entities had remediated them or if they were making progress according to their remediation plans. During the year, FHFA found that the FHLBanks and OF remediated or were on plan to remediate 96 percent of their MRAs, which exceeds the target set for this measure.

Strategic Objective 1.2: Develop and maintain a world-class supervision program

FHFA conducts ongoing risk analysis, on-site examinations, and off-site review and monitoring. The Agency works to strengthen its supervision programs to build world-class capabilities. FHFA develops and maintains highly skilled examiners and continues to modernize and improve its supervision practices, processes, and tools. In FY 2021, FHFA monitored four measures for Strategic Objective 1.2 and met the targets for all four of these measures.

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

Strategic Objective 1.2: Develop and maintain a world-class supervision program							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
1.2.1: Conduct horizontal reviews to provide supervisory perspective on the application and the implementation of processes, activities, and initiatives at the Enterprises in the areas of credit, market, and operational risk, modeling/data, and governance	N/A	N/A	N/A	N/A	N/A	4 horizontal reviews during FY 2021	MET
1.2.2: Expand regular qualitative and quantitative reporting by the Enterprises of counterparty information in the Call Report System	N/A	N/A	N/A	N/A	N/A	June 2021	MET
1.2.3: Develop an action plan to address improvement opportunities identified in FHFA's optimization study to further the development of a world-class supervision program	N/A	N/A	N/A	N/A	N/A	June 2021	MET
1.2.4: Conduct horizontal review of acquired member asset pricing and its effect on credit risk sharing structures at the FHLBanks	N/A	N/A	N/A	N/A	N/A	September 2021	MET

PERFORMANCE MEASURE 1.2.1

Conduct horizontal reviews to provide supervisory perspective on the application and the implementation of processes, activities, and initiatives at the Enterprises in the areas of credit, market, and operational risk, modeling/data, and governance

FHFA independently monitors performance of the regulated entities and the markets in which they operate — in the areas of credit, market, and operational risk and modeling/data and governance. The results of this work can be used to support activities in the examination plans. For FY 2021, FHFA completed four horizontal supervisory perspective reviews of Fannie Mae and Freddie Mac.

PERFORMANCE MEASURE 1.2.2

Expand regular qualitative and quantitative reporting by the Enterprises of counterparty information in the CRS

The CRS for the Enterprises was expanded to include more information to inform a more complete view of Enterprise operations and risks. A robust and consistent data collection mechanism helps many aspects of data-driven supervision and policy. Use of the CRS addresses inconsistencies and gaps in data collection. Six new schedules were released in FY 2021, which include:

1. Mortgage Servicer Remittance Detail
2. Derivatives by Instrument
3. Book Value Detail – Mortgage Loans
4. Book Value Detail – Enterprise Debt
5. Interest Income Detail – Mortgage Loans
6. Interest Expense Detail – Enterprise Debt

PERFORMANCE MEASURE 1.2.3

Develop an action plan to address improvement opportunities identified in FHFA's optimization study to further the development of a world-class supervision program

FHFA evaluated proposed improvement opportunities from the initial optimization study and formulated a high-level action plan for a select list of initiatives designed to enhance the Agency's operational effectiveness and further strengthen FHFA as a diverse and nimble regulator. FHFA developed and proposed a high-level action plan in late May.

PERFORMANCE MEASURE 1.2.4

Conduct horizontal review of acquired member asset (AMA) pricing and its effect on credit risk sharing structures at the FHLBanks

AMA is a mission activity of the FHLBanks, providing liquidity to members who sell mortgages to participating FHLBanks. FHFA's AMA regulation prescribes the parameters within which the FHLBanks may purchase mortgages and requires that the products the FHLBanks offer to their members have credit risk-sharing structures whereby the members provide the credit enhancement necessary to enhance an asset or pool to AMA Investment Grade. The horizontal review analyzed AMA mortgage credit risk-sharing structures as well as the methodologies the FHLBanks use in determining pricing. The horizontal review was approved on September 30, 2021.

Strategic Objective 1.3: Responsibly end the conservatorships of the Enterprises

FHFA continues to focus on managing the ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, as well as reducing taxpayer risk from Enterprise operations. In FY 2021, FHFA monitored five performance measures for Strategic Objective 1.3 and met the targets for four of these measures.

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

Strategic Objective 1.3: Responsibly end the conservatorships of the Enterprises							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
1.3.1: Issue a final Enterprise Regulatory Capital Framework	N/A	N/A	N/A	NOT MET	NOT MET	December 2021	MET
1.3.2: Publish a proposed regulation requiring the Enterprises to submit resolution plans (living wills)	N/A	N/A	N/A	N/A	N/A	March 2021	MET
1.3.3: Issue a proposed rule on Enterprise Capital Planning	N/A	N/A	N/A	N/A	N/A	September 2021	NOT MET
1.3.4: Oversee the Enterprises' compliance with Senior Preferred Stock Purchase Agreements targets for mortgage assets and indebtedness	N/A	N/A	N/A	N/A	N/A	Retained portfolio balances and debt limits are below the Senior Preferred Stock Purchase Agreement requirements of $250 billion and $300 billion, respectively, at each Enterprise	MET
1.3.5: Make recommendation to the Director regarding Common Securitization Solutions' structural options post-conservatorship	N/A	N/A	N/A	N/A	N/A	September 2021	MET

PERFORMANCE MEASURE 1.3.1

Issue a final Enterprise Regulatory Capital Framework (ERCF)

In December 2020, FHFA published a final capital rule which established a new regulatory capital framework for Fannie Mae and Freddie Mac. The Enterprise Regulatory Capital Framework is intended to ensure the safety and soundness of the Enterprises through the economic cycle by establishing robust regulatory capital requirements to be met with high quality capital. After finalizing the ERCF, FHFA identified two areas that warranted revision to allow the rule to work as intended, with the leverage requirements and buffer serving as a credible backstop to the risk-based capital requirements in normal operating environments. Consequently, in September 2021, FHFA published an NPR that would amend the ERCF to refine the prescribed leverage buffer amount and the capital treatment of CRT to better reflect the risks inherent in the Enterprises' business models and to encourage the distribution of credit risk away from taxpayers to private investors.

PERFORMANCE MEASURE 1.3.2

Publish a proposed regulation requiring the Enterprises to submit resolution plans (living wills)

The resolution planning regulation supports FHFA efforts to develop the resolution authorities Congress granted in HERA and promote Enterprise safety and soundness operation by requiring the Enterprises to prepare for their smooth and rapid resolution in the event of a failure. The rule imposes requirements similar to those imposed on other large financial companies. The regulation and the public portions of the plans written subject to it will help inform market participants about the risks facing the Enterprises and how an Enterprise failure may affect them. The regulation will also provide FHFA with additional diagnostic tools to identify areas of risk at the Enterprises and allow FHFA to better plan how it would address an Enterprise failure. Proposing the rule for public comment in FY 2021 was a key step toward finalizing the rule, which also occurred in FY 2021. FHFA and the Enterprises are now in the process of implementing the rule. The resolution planning regulation requires the Enterprises to complete, submit, and update resolution plans that describe how the Enterprises might be resolved in an orderly fashion should they fail. FHFA issued an NPR for Enterprise resolution planning, which was published in the Federal Register on January 8, 2021. The final rule was published in the Federal Register on May 4, 2021.

PERFORMANCE MEASURE 1.3.3

Issue a proposed rule on Enterprise capital planning

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

PERFORMANCE MEASURE 1.3.4

Oversee the Enterprises' compliance with PSPA targets for mortgage assets and indebtedness

The PSPAs set a specific dollar amount that limits "mortgage assets" and "indebtedness" (as those terms are defined in the PSPAs) that either Enterprise can hold as of the end of each CY. The measure assesses whether the dollar amounts were equal to or below the permitted levels. If either the mortgage assets or indebtedness limit is breached during a given period, the measure is not met. For FY 2021, the permitted levels of mortgage assets and indebtedness were $250 billion and $300 billion, respectively. FHFA verifies this measure by comparing each Enterprise's unpaid principal balance (UPB) of the retained mortgage portfolio and total debt outstanding as reported in the Enterprise's monthly volume summary to the PSPA limits. Both retained portfolio balances and total debt outstanding at each Enterprise remained below the PSPA limits of $250 billion and $300 billion, respectively, throughout the fiscal year.

PERFORMANCE MEASURE 1.3.5

Make recommendation to the Director regarding CSS's structural options post-conservatorship

Determining the future corporate structure for CSS is a precursor to implementing that structure, which may be a precursor to ending the conservatorships of the Enterprises. The 2021 Conservatorship Scorecard required CSS to produce a document regarding its structure post-conservatorship. However, as a result of a FHFA internal review, the work under this performance measure was refocused from structural options for CSS post-conservatorship to structural options for CSS to support the Enterprises in the near-term. FHFA staff produced a recommendation memo using the CSS document as input. FHFA completed its review of the options which resulted in the restructuring of the CSS Board of Managers that removed the three independent members and replaced the Independent Chair.

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

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

Strategic Goal 2 – Selected Accomplishments

FHFA achieved several accomplishments in FY 2021 that contributed to progress toward the strategic goal.

FHFA STRENGTHENS AND EXPANDS FAIR LENDING OVERSIGHT

- In March 2021, FHFA issued its first annual fair lending oversight letters to each Enterprise communicating FHFA's holistic view of fair lending supervision and oversight. FHFA summarized its conservatorship feedback on fair lending monitoring information and key supervisory takeaways on matters unique to each Enterprise. FHFA also highlighted issues the Enterprises should continue focusing on from a fair lending perspective in the coming year, including appraisal bias and automated valuation, geographic differentiation, and artificial intelligence/machine learning.

- In June 2021, FHFA transmitted its first referrals under the mortgage interest rate disparities program. Under 12 U.S.C. 4561(d), FHFA is authorized to require the Enterprises to submit information from which FHFA may assess whether loan pricing by lenders results in disparities for minority borrowers compared with non-minority borrowers of similar creditworthiness. Using CY 2019 data, FHFA referred a total of 152 lenders to Federal regulatory and enforcement agencies for preliminary findings of patterns of disparities.

- FHFA has taken substantial steps to enhance fair lending supervision and oversight of its regulated entities. Among other fair lending accomplishments, in July 2021, FHFA issued a policy statement on fair lending and a reporting order to facilitate ongoing monitoring.

- Under the recently signed MOU between FHFA and HUD regarding fair housing and fair lending coordination, FHFA partnered with HUD in sustainably advancing equitable housing finance. In September, FHFA announced that the Enterprises would be required to submit Equitable Housing Finance Plans to FHFA by the end of CY 2021. The plans will identify and address barriers to sustainable housing opportunities, including the Enterprises' goals and action plans to advance equity in housing finance for the next three years. FHFA also required the Enterprises to submit annual progress reports on the actions undertaken during the prior year to implement their plans. FHFA has a statutory duty to ensure that the Enterprises operate in a manner consistent with safety and soundness and the public interest. FHFA issued a Request for Input through October 25, 2021, to aid the Enterprises in preparing their first plans and to aid FHFA in overseeing the plans.

PROPOSED 2022-2024 HOUSING GOALS FOR THE ENTERPRISES

- As part of the housing goals proposed for 2022-2024 and published on August 18, 2021, FHFA announced two new single-family home purchase subgoals to replace the existing low-income areas subgoal. One new subgoal targets minority communities; the other continues to target low-income neighborhoods.

- The new subgoal for minority census tracts was designed to help preserve and support affordable housing in communities of color, allowing families to stay in the communities they helped build.

- Over the next three years, the housing goals should support equitable access to sustainable affordable housing opportunities in a safe and sound manner that bolsters the health of communities.

RESPONDED TO THE AFFORDABLE HOUSING SUPPLY CRISIS

- In 2021, FHFA, in partnership with the other federal agencies, began a targeted focus on increasing the nation's affordable housing supply.
- To support underserved markets, FHFA announced that each Enterprise's multifamily businesses would be able to invest up to $850 million annually in the Low-Income Housing Tax Credit (LIHTC) market as equity investors. Previously, each Enterprise was limited to $500 million of investment annually in the LIHTC market. Within this $850 million annual funding cap, any investments above $425 million in a given year are required to be in areas that have been identified by FHFA as markets that have difficulty attracting investors. This marks an increase in the dollar amount of investments under the cap that must be made in targeted transactions that either support housing in Duty to Serve-designated rural areas, preserve affordable housing, support mixed-income housing, provide supportive housing, or meet other affordable housing objectives.
- FHFA authorized Freddie Mac to revisit certain mortgage eligibility requirements for two-to-four unit properties, which are disproportionately held by Black and Brown homeowners. Freddie Mac's updates will add to the availability of rental units in these properties, while also providing additional wealth-building opportunities for new owners of two-to-four unit properties.
- In 2020, FHFA authorized Fannie Mae to accept loan delivery on single-wide manufactured housing. In 2021, FHFA authorized Freddie Mac to accept eligible single-wide manufactured housing loan deliveries as well, which will make more financing available for such properties and facilitate the delivery of more manufactured homes. An eligible single-wide, or single-section manufactured housing unit, is a factory-built rectangular structure placed on a permanent foundation and equivalent in quality and amenities to entry level stick-built housing.
- On September 14, 2021, FHFA held a virtual listening session on Accessory Dwelling Units in order to identify potential barriers to financing for this re-emerging tool for growing the supply of available housing in single-family neighborhoods.

COMPLETED TRANSITION TO UPDATED FHLB AHP REGULATION

- 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, and AHP subsidies must be used either to finance homeownership by households with incomes at or below 80 percent of the area median income (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.
- FHFA's 2018 rule amending the AHP regulation required mandatory compliance with all regulatory amendments no later than January 1, 2021. The amendments are the most substantive changes to the AHP regulation since FHFA's predecessor agency, the Federal Housing Finance Board, implemented changes to the AHP rule in 1997. The amendments continue to devolve the authority to the FHLBanks in the design and administration of their AHPs. The changes include:
  - Authorizing the FHLBanks to establish targeted competitive funds to address specific affordable housing needs in their districts;
  - Providing the FHLBanks with additional discretion to design and implement their own project selection criteria;
  - Aligning monitoring requirements with those of other federal government funding programs;
  - Clarifying requirements regarding remediating project noncompliance; and
  - Removing the requirement for retention agreements for owner-occupied rehabilitation projects.

- To evaluate the FHLBanks' successful transition to the new regulatory requirements, during the 2021 annual examinations, AHP examiners in FHFA conducted comprehensive reviews of the two key strategic documents prepared by the FHLBanks in consultation with their Advisory Councils – the Targeted Community Lending Plan (TCLP) and the AHP Implementation Plan (AHP IP). The TCLP identifies and assesses significant affordable housing needs in a FHLBank's district through market research and consultation with stakeholders. The AHP IP describes how these needs will be addressed through the FHLBank's AHP. AHP examiners assess these documents' proficiency in promoting effective administration of the FHLBank's AHP in addition to addressing regulatory expectations.

- AHP examiners also evaluate certain processes critical to the success of each FHLBank's AHP where the final rule revised regulatory expectations. Namely, AHP examiners assessed the FHLBank's procedures and practices in remediating project noncompliance and in recovering AHP funds upon a household's sale or refinancing of its primary residence when the household's home purchase had been assisted through a FHLBank's AHP.

STRENGTHENED OMWI'S OVERSIGHT AND ENFORCEMENT

- FHFA has taken significant steps to strengthen its oversight and enforcement of D&I programs at the regulated entities. Under the Minority and Women Inclusion Rule at 12 C.F.R. §1223, the Agency is authorized to examine and assess the quality of D&I programs at the regulated entities. FHFA has been conducting examinations under this authority for several years. Moreover, in 2021, FHFA further enhanced its examination authority with the issuance of its first D&I ROEs beginning in the second quarter. FHFA also developed and implemented a D&I examination ratings methodology and assigned composite D&I ratings, which are reflected in the new ROEs. Such ratings will provide a more precise evaluation of the regulated entities' execution of their D&I programs.

Strategic Objective 2.1: Institute reforms at the regulated entities that serve to foster CLEAR national housing finance markets

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

In FY 2021, FHFA monitored four performance measures for Strategic Objective 2.1 and met the targets for two of these measures.

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

Strategic Objective 2.1: Institute reforms at the regulated entities that serve to foster CLEAR national housing finance markets							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
2.1.1: Update the minimum financial eligibility requirements for Enterprise sellers/servicers	N/A	N/A	N/A	N/A	N/A	June 2021	NOT MET
2.1.2: Publish annual guarantee fee report	N/A	N/A	N/A	N/A	N/A	December 2020	MET
2.1.3: Document review of regulated entity public filings	N/A	N/A	N/A	N/A	N/A	Quarterly documentation of reviews within 45 days after the required filing date	MET
2.1.4: Issue a final rule on prior approval for Enterprise products	N/A	N/A	N/A	N/A	N/A	September 2021	NOT MET

PERFORMANCE MEASURE 2.1.1

Update the minimum financial eligibility requirements for Enterprise sellers/servicers

The Enterprises' financial requirements for nonbank seller/servicers include net worth, capital ratio, and liquidity requirements that strengthen nonbanks that participate in mortgage markets. These requirements ensure that nonbanks hold certain levels of capital and liquidity depending on the composition of their servicing portfolio.

FHFA and the Enterprises review seller/servicer eligibility requirements regularly and update the requirements when appropriate to reflect changes in seller/servicer business models and market conditions. FHFA released proposed updated requirements for public comment on January 31, 2020. On June 15, 2020, FHFA determined that it was prudent to work with the Enterprises to reassess and re-propose the requirements, including incorporating lessons learned from the COVID-19 pandemic, before directing the Enterprises to implement updated requirements.

The target for this measure was intended to reflect the Enterprises publishing new seller/servicer eligibility requirements by June 30, 2021 with an effective date of December 31, 2021. As part of this process, FHFA had a target of releasing the new servicer eligibility requirements for public comment by January 31, 2021. However, FHFA postponed the date for releasing new eligibility requirements to allow Enterprise servicers to focus their full attention on helping distressed borrowers transition out of COVID forbearance plans into long-term, sustainable mortgages that keep them in their homes.

PERFORMANCE MEASURE 2.1.2

Publish annual guarantee fee report

HERA requires FHFA to conduct an ongoing study of the guarantee fees charged by the Enterprises and to submit a report to Congress each year. Guarantee fees are intended to cover the credit risk and other costs that Fannie Mae and Freddie Mac incur when they acquire single-family loans from lenders. These include projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. The 2020 report compares year-over-year 2019 to 2018 and 2017. The report "Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2019" was published December 14, 2020.[20]

PERFORMANCE MEASURE 2.1.3

Document review of regulated entity public filings

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

PERFORMANCE MEASURE 2.1.4

Issue a final rule on prior approval for Enterprise products

Section 1123 of HERA amended the Safety and Soundness Act to require the Enterprises to provide notice to FHFA before undertaking a new activity and obtain prior approval from the Agency before offering a new product. On July 2, 2009, FHFA published an interim final rule that established a process for the Enterprises to submit a notice of a new activity and for FHFA to determine whether that activity is a new product that merits public notice and comment. FHFA received a small number of comments on the interim final rule but had not advanced it to a final rule. Given the time since those comments were received and the evolution of the Enterprises' businesses since 2009, the Agency published an NPR in the Federal Register on November 9, 2020. FHFA received 17 comments on the proposed rule. The final rule is under review by FHFA.

20 The report is available at https://www.fhfa.gov/AboutUs/Reports/Pages/Fannie-Mae-and-Freddie-Mac-Single-Family-Guarantee-Fees-in-2019.aspx.

Strategic Objective 2.2: Ensure that the regulated entities fulfill their statutory missions to support affordable housing, community development, and diversity and inclusion requirements

FHFA works with the Enterprises to develop and monitor programs that expand access to housing finance to all qualified financial institutions and qualified borrowers. FHFA oversees the FHLBanks' affordable housing and community investment activities. During FY 2021, FHFA assessed the Enterprises' Duty to Serve performance and conducted diversity and inclusion examinations of the Enterprises, FHLBanks, OF, and CSS. In FY 2021, FHFA monitored five performance measures for Strategic Objective 2.2 and met four of the targets for these measures.

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

Strategic Objective 2.2: Ensure that the regulated entities fulfill their statutory missions to support affordable housing, community development, and diversity and inclusion requirements							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
2.2.1: Publish proposed Enterprise housing goals rule for 2022-24	N/A	N/A	N/A	N/A	N/A	June 2021	NOT MET
2.2.2: Issue annual ratings for each Enterprise's Duty to Serve performance in 2019	N/A	N/A	N/A	N/A	N/A	October 2020	MET
2.2.3: Complete implementation of the Language Access Plan	N/A	N/A	N/A	N/A	N/A	December 2020	MET
2.2.4: Determine that the regulated entities have satisfactorily addressed MRAs relating to their diversity and inclusion programs, in accordance with agreed-upon remediation plans and time frames	N/A	N/A	N/A	N/A	N/A	90 percent	MET
2.2.5: Conduct diversity and inclusion examinations of the Enterprises and the FHLBanks	N/A	N/A	MET	MET	MET	12 exams during FY 2021	MET

PERFORMANCE MEASURE 2.2.1

Publish proposed Enterprise housing goals rule for 2022-24

The Enterprises have important roles in supporting access to mortgage credit for low- and moderate-income families. Sections 1331 through 1333 of the Safety and Soundness Act require the Director to establish annual housing goals for mortgage purchases by Fannie Mae and Freddie Mac, covering at most a three-year period. This proposed rule would establish annual housing goals for 2022 through 2024. The Enterprise housing goals are annual (based on CY) and include separate affordable housing categories for single-family and multifamily mortgages. On August 18, 2021, FHFA published a proposed regulation setting annual housing goals for the Enterprises for CY 2022 through CY 2024.

FHFA did not publish the proposed Enterprise goals rule by the target date of June 1, 2021, but the proposed rule was completed and published before the end of FY 2021. Publication was delayed by two months as staff developed additional analysis requested by the prior Director and then incorporated adjusted policy priorities as part of the transition to a new Acting Director. The proposal will help ensure that Fannie Mae and Freddie Mac are fulfilling their mission to serve all homeowners and renters.

PERFORMANCE MEASURE 2.2.2

Issue annual ratings for each Enterprise's Duty to Serve (DTS) performance in 2019

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

Under FHFA's regulation, each Enterprise submits a DTS

Underserved Markets Plan for review and non-objection. The Plan covers a three-year period and describes the activities and objectives the Enterprise will carry out in each market to meet its DTS obligations. While the Plans cover three years, FHFA is required by statute to rate the Enterprises DTS performance each CY.

FHFA issued its annual ratings for each Enterprise's 2019 DTS performance as part of FHFA's Annual Housing Report. The Agency determined that each Enterprise complied with its DTS requirements in all three underserved markets and that each Enterprise performed a satisfactory job of increasing the liquidity and distribution of available capital in each of the three underserved markets.

PERFORMANCE MEASURE 2.2.3

Complete implementation of the Language Access Plan

In May 2018, FHFA published the Language Access Plan, a multi-year endeavor focused on improving the ability of mortgage-ready limited English proficiency (LEP) borrowers to understand and participate in all facets of the mortgage life cycle by providing translated resources for use by mortgage professionals assisting LEP borrowers. FY 2021 represents the final year of implementation where select mortgage documents were made available in all five languages — Spanish, Chinese, Vietnamese, Korean, and Tagalog.

Additionally, in FY 2021, an interpretive resources page was added to the Mortgage Translations site (https://www.fhfa.gov/MortgageTranslations) providing a listing of in-language resources available to mortgage professionals assisting LEP borrowers, which includes references to other governmental agencies and a resource link to improve website navigation. The Enterprises have served as partners with FHFA, routinely providing translated content to FHFA for publication on Mortgage Translations.

The Supplemental Consumer Information Form and revised security instruments for each state will be added later this year and into 2022. FHFA and the Enterprises continued to promote the Mortgage Translations clearinghouse to inform stakeholders and the general public of the translated resources available. This includes social media posts on Fannie Mae and Freddie Mac websites during National Homeownership Month to increase awareness and planned posts for later this year.

PERFORMANCE MEASURE 2.2.4

Determine that the regulated entities have satisfactorily addressed MRAs relating to their D&I programs, in accordance with agreed-upon remediation plans and time frames

When there is a significant supervisory concern relating to the D&I program of a regulated entity, FHFA may issue a MRA that requires the board of directors and/or management to take corrective action to address the concern. FHFA tracks the remediation of MRAs to ensure that the regulated entity has addressed the supervisory concern. For purposes of this measure, the Agency includes MRAs related to any matter arising in the scope of examination work for a given fiscal year within the term of the FHFA Strategic Plan.

Each FHLBank and OF must satisfactorily addressed MRAs issued by FHFA within the time frame established by FHFA examiners and agreed upon by the FHLBank or OF (e.g., a FHLBank may agree to remediate a MRA within 12 months), or the FHLBank or OF is on-plan for remediation. The target is 90 percent success rate for MRAs reviewed during the year. In FY 2021, 100 percent (18 of 18) of the open MRAs issued at previous examinations to the regulated entities were remediated or on track to be remediated, which exceeds the target set for this measure.

PERFORMANCE MEASURE 2.2.5

Conduct D&I examinations of the Enterprises and the FHLBanks

The regulated entities need to be evaluated by FHFA to ensure compliance with statutory and regulatory requirements for advancing diversity and ensuring inclusion in all of their business activities. FHFA executed supervisory strategies that will establish areas of focus and set the expectations for the regulated entities to ensure their compliance. The D&I examination module established a framework within which the regulated entities are examined by FHFA for such compliance and held accountable in this area. The performance measure entails the D&I supervisory strategies and examination plans that FHFA has developed to evaluate compliance by Fannie Mae, Freddie Mac, the FHLBanks, and OF with Section 1116 of HERA and FHFA regulations at the 12 CFR Part 1207. In FY 2021, FHFA conducted 14 D&I examinations.

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

In FY 2021, FHFA continued to conduct research, collect and analyze data, and publish important information on housing and market conditions. This informed policy decisions, disseminated knowledge to the public, and promoted market efficiency and stability. Selected examples include:

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

In FY 2021, FHFA monitored three measures for Strategic Objective 2.3 and met two of the targets for these measures.

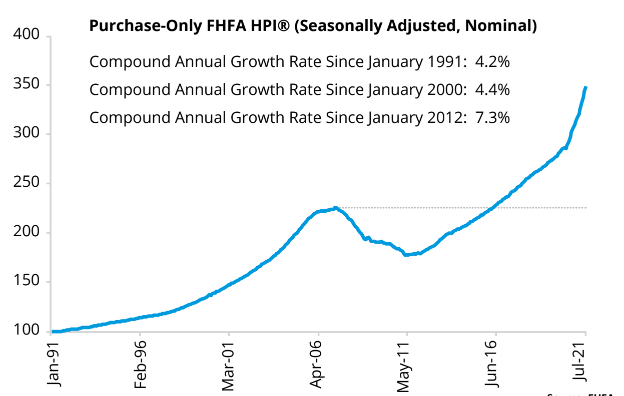
Table 13: Strategic Objective 2.3 – Summary of Performance Measures and Results

Strategic Objective 2.3: Position FHFA as a leader in providing the public with information and analysis on the state of the housing finance markets and related matters							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
2.3.1: Publish 12 monthly and 4 quarterly FHFA House Price indexes	MET	MET	MET	MET	MET	September 2021	MET
2.3.2: Publish annual Public Use Database	N/A	N/A	N/A	N/A	N/A	June 2021	NOT MET
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database	N/A	N/A	N/A	N/A	N/A	September 2021	MET

PERFORMANCE MEASURE 2.3.1

Publish 12 monthly and 4 quarterly FHFA HPIs

Figure 12: Monthly House Price Index for U.S. from January 1991 – Present



The statutorily required monthly FHFA HPI® is a broad measure of the movement of single-family house prices, calculated using home sales price information for mortgages sold to, or guaranteed by, the Enterprises. The FHFA HPI® serves as a timely, accurate indicator of house price trends at various geographic levels. Because of the breadth of the sample used for the survey, it provides more information than is available in other house price indices. The FHFA HPI® provides housing economists with an analytical tool that is useful for estimating changes in the rates of mortgage defaults, prepayments, and housing affordability in specific geographic areas. FHFA HPI® data are available at https://www.fhfa.gov/HPI. In FY 2021, FHFA successfully published 12 monthly and four quarterly FHFA House Price Indexes. Figure 12 shows the FHFA

HPI® from 1991 to July 2021 as released in September 2021.

PERFORMANCE MEASURE 2.3.2

Publish annual Public Use Database (PUDB)

The Enterprise PUDB is released annually by FHFA as required by 12 U.S.C. 4543. It provides loan and unit information for single-family and multifamily mortgages acquired by Fannie Mae and Freddie Mac in the prior CY. The data provide the general public with a deeper understanding of housing and mortgage markets. The PUDB single-family data set includes detailed information such as the income, race, and gender of the borrower as well as the census tract location of the property, LTV ratio, age of mortgage note, and affordability of the mortgage. The PUDB multifamily property-level data set includes information on the size of the property, UPB, and type of seller/servicer from which the Enterprise acquired the mortgage. The multifamily unit-class file also includes information on the number and affordability of the units in the property. Both the single-family and multifamily data include indicators of whether the purchases are from underserved census tracts, as defined in terms of median income and minority percentage of population. While the scheduling of the release of the PUDB has consistently been stated as no later than September 30, 2021, the target date was inadvertently set as June 30, 2021. The PUDB data sets were released in September 2021.[21] In the future, the target date for this measure will be determined by the target date set by the governing legislation to avoid inadvertently setting the target to an earlier deadline.

PERFORMANCE MEASURE 2.3.3

Publish quarterly aggregate statistics on mortgage profiles and delinquencies from NMDB®

The NMDB® is a nationally representative 5 percent sample of residential mortgages in the United States. Publication of aggregate data from NMDB® is a step toward implementing the statutory requirements of section 1324(c) of the Safety and Soundness Act, as amended by HERA. The statute requires FHFA to conduct a monthly mortgage market survey to collect data on the characteristics of individual mortgages, both Enterprise and non-Enterprise, and to make the data available to the public while protecting the privacy of the borrowers. The data helps FHFA gain a better understanding of housing and mortgage markets. The purpose of NMDB® is to inform and educate FHFA, CFPB, and other federal agencies about lending products and mortgage market health. The database is comprehensive, and there are many possibilities for how it may be used, including:

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

The data was published on www.fhfa.gov/nmdbdata on June 30, 2021.

21 https://www.fhfa.gov/DataTools/Downloads/Pages/Public-Use-Databases.aspx

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

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

Strategic Goal 3 – Selected Accomplishments

FHFA achieved several accomplishments in FY 2021 that contributed to progress in this area. Selected accomplishments for FY 2021 include:

FHFA UPDATES EMPLOYEE PERFORMANCE MANAGEMENT POLICY AND SYSTEM

- FHFA recognizes that one of the foundational components of operational efficiency and positive employee engagement is a robust performance management program. Therefore, to further support and engage FHFA's results-oriented, high-performance workforce and more closely link individual performance to Agency strategic objectives, FHFA revised its employee performance management program. The revised program stresses the importance of identifying individual performance goals, conducting continuous performance feedback, and focusing on clearly recognizing and rewarding meaningful distinctions in overall performance.

- Over the course of the annual rating cycle, rating officials and employees engage in meaningful, recurring conversations that identify performance strengths, target performance challenges, and promote career advancement through learning and development opportunities. The new program increases the mandatory discussion points between employees and managers from three to five annually. To promote accurate performance ratings and more meaningful performance feedback, FHFA redesigned the final performance rating pattern from five to four rating levels in line with best practices in human capital management.

- Additionally, under the new rating pattern, FHFA raised the bar for expected performance and increased the focus on providing performance feedback associated with a final rating. To assist with the management of the various phases of the annual performance management cycle, an interactive online performance management system was developed, which includes a library of drag-and-drop critical elements, a workplan template to track assignments and goals, progress review tracking that includes online feedback mechanisms, and an automated process to determine final ratings.

BUILDING OUT OEOF

- To support a workplace where employees feel safe, respected and valued for their differences, FHFA continued its Conflict Resolution initiative in FY 2021 with the training of non-supervisors. Through a partnership with the Federal Mediation and Conciliation Service, FHFA provided training to non-supervisory FHFA employees to educate them about the various types of conflict resolution tools available, such as alternative dispute resolution.

- FHFA is currently working with the U.S. Office of Personnel Management (OPM) to uncover any obstacles that may be present for each EEO demographic population. The purpose of this barrier analyses is to determine causation and interventions to remediate the barrier. As part of this effort, OPM has conducted interviews with senior leaders and focus groups for supervisors, Employee Engagement Ambassadors, and Diversity Advisory Council members.

- As part of building up the FHFA Anti-Harassment program, FHFA hired a harassment prevention EEO specialist to lead efforts to revamp the Agency anti-harassment policy by soliciting input from key stakeholders, executive leadership, and employees as FHFA works to design a new policy for the Agency. Further, FHFA has enhanced personalized customer service in contacting witnesses, named officials, and complainants on each EEO case and harassment concern to inform them of the status of the cases and educate them on what to expect next in each process.

MAINTAINED THE AGENCY'S TECHNICAL AND ADMINISTRATIVE INFRASTRUCTURES DURING EXPANDED TELEWORK/DUE TO COVID-19

- Throughout the ongoing period of mandatory and expanded telework required because of the COVID-19 pandemic, the Agency's operations infrastructure has proven to be stable, secure, and resilient. The Agency's technology infrastructure has continued to support employees working remotely while ensuring secure access to Agency information resources and collaboration tools. The Agency's other operations functions have adapted service models to support a remote workforce while updating policies and procedures to ensure a safe and orderly transition as employees return to the office.
- Given the Agency's success in transitioning to a remote environment, policies have been updated to expand the number of days a week that an employee may request telework once restrictions on access to office space are lifted. Technology tools and operations procedures have been enhanced throughout FY 2021 to fully support success of all employees in the hybrid work environment that will result from a broader mix of employees concurrently being in and out of the physical office space. This included activities like implementing the Microsoft Teams collaboration platform, updating the Agency's telework policy, and establishing standard operating procedures for managing meetings with a mix of virtual and on-site teams. This ability to adapt to a changing environment helps maintain FHFA's status as an effective and nimble regulator.

Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce

The Agency promotes D&I in all employment, management, and business activities at FHFA and continues to recruit and develop an adaptive workforce while promoting accountability and continuous learning. In FY 2021, FHFA monitored three measures for Strategic Objective 3.1. Two measures will not report data until FY 2022, and FHFA did not meet the target for measure 3.1.3.

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

Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
3.1.1: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"	N/A	N/A	N/A	MET	MET	Positive responses equal to or higher than both the small agency and government-wide averages	DATA NOT AVAILABLE
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index is at or above the percent that the Office of Personnel Management considers an agency "Strength"	N/A	N/A	N/A	N/A	N/A	65 percent positive	DATA NOT AVAILABLE
3.1.3: Improve the number of days to hire	N/A	N/A	N/A	N/A	N/A	95 workdays	NOT MET

PERFORMANCE MEASURE 3.1.1

Responses to the Federal Employee Viewpoint Survey (FEVS) reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"

The FEVS is conducted on an annual basis to measure employees' perceptions of many work issues. The results provide Agency leaders insight into areas where improvements have been made, as well as areas where improvements are needed. Tracking FHFA's response to the question on its workforce having the needed job-relevant knowledge and skills necessary to accomplish organizational goals provides a high-level valuation of core human resources programs such as recruitment, performance management, and training and development.

This measure will determine how well FHFA compares with the rest of the federal government in having a workforce with the needed job-relevant knowledge and skills necessary to accomplish organizational goals. It also will tell FHFA if its employees perceive that the Agency is hiring, retaining, and developing the right talent to accomplish its mission.

At a minimum, the 2021 FEVS will not be made available until early 2022. The FY 2020 FEVS response for this measure is 88 percent positive—which is 2 percent higher than the small agency average (86 percent) and 4 percent higher than the government-wide average (82 percent).

PERFORMANCE MEASURE 3.1.2

FEVS Employee Engagement Index is at or above the percent that OPM considers an agency "Strength"

FHFA measured agency-wide employee engagement as compared to what is considered an overall strength as defined by OPM. The Agency has committed to a more engaged workforce with the assumption that more engaged employees are more productive and therefore improve overall Agency operations. OPM's schedule for the FEVS was impacted by the COVID-19 pandemic. Historically, the FEVS open period is in May to June, with results provided to agencies near the end of the fiscal year. As of the date of this report, OPM has not released the FY 2021 FEVS schedule. At a minimum, the 2021 FEVS will not be made available until early 2022. The FY 2020 FEVS response for this measure is 79 percent positive.

PERFORMANCE MEASURE 3.1.3

Improve the number of days to hire

The purpose of this measure is to monitor the time required to hire job applicants and fill vacant positions. The Agency determined that 95 workdays should be the target for completing the hiring process. The average hiring time for FY 2021 was 106 workdays. Several vacancy announcements, which include economist positions, were initiated in FY 2020. The cycle for hiring a Ph.D. economist requires approximately nine months, which is well beyond FHFA's target for this measure. FHFA filled eight Ph.D. economist positions, which affected the Agency's overall average time-to-hire.

Measurement of the hiring cycle begins when a vacancy announcement or hiring action has been authorized by the hiring manager and concludes when an applicant accepts a job offer. The number of days to hire is tracked on a monthly basis through the staffing plan, and it is reported quarterly. At the beginning of FY 2021, potential improvements to the hiring process were identified that should enable hires in FY 2022 to be completed in 95 days if all stakeholders meet all time frames.

FHFA has put these new process changes and process segment time targets in place and is currently gathering data on where targets are not being met in order to inform strategies to address ongoing gaps. In addition, FHFA will implement a tool to accurately track the time-to-hire from the date an action is initiated until an offer is accepted.

Because of the reporting limitations, FHFA's internal tracking system currently only provides end-to-end hiring data which covers from the time the action was initiated until the selected employee reports/moves into the new position. The new tool will help identify obstacles at specific points during the hiring process.

Strategic Objective 3.2: Ensure sound governance and good stewardship of Agency resources

FHFA employs financial, contracting, and performance information to ensure that resources are managed responsibly. In FY 2021, FHFA monitored four measures for Strategic Objective 3.2 and met the targets for three of these measures.

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

Strategic Objective 3.2: Cultivate a high performing, diverse, accountable, and engaged workforce							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses	MET	MET	MET	MET	MET	100 percent of the time	MET
3.2.2: Compete 75 percent or more of FHFA contracts	N/A	N/A	N/A	N/A	N/A	100 percent of the time	MET
3.2.3: Complete corrective actions to address audit recommendations in a timely manner	N/A	N/A	N/A	N/A	N/A	95 percent of the corrective actions to address Office of Inspector General recommendations are completed within one year of the resolution date	NOT MET
3.2.4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	MET	MET	MET	MET	NOT MET	Total dollar amount of contracts greater than the five-year average	MET

PERFORMANCE MEASURE 3.2.1

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

Financial statements provide information that is essential to evaluating FHFA's financial condition. Essentially, financial statements show where FHFA's money came from, where it went, and where it is now. The financial statements audit tests: (1) accuracy, consistency, and FHFA adherence to applicable government accounting standards; and (2) the internal controls to determine whether the financial statements can be relied on.

An unqualified opinion with no material weaknesses or unacceptable risks is the best result of any audit. Achieving this level of excellence indicates that proper accounting controls are being used and proper application of accounting standards are being adhered to. It means that the financial statements are reliable, accurate, and complete. FHFA has received a clean audit every year since the creation of the Agency in 2008.

PERFORMANCE MEASURE 3.2.2

Compete 75 percent or more of FHFA contracts

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

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

As good stewards of agency resources, FHFA is committed to securing the goods and services needed to execute its mission at fair and reasonable prices and considering solutions that are the best value to the Agency. Competing contracts supports this commitment. In FY 2021, FHFA competed 86 percent of its contract actions, which exceeds the target set for this measure.

PERFORMANCE MEASURE 3.2.3

Complete corrective actions to address audit recommendations in a timely manner

FHFA's target for timely audit follow-up is 95 percent of the corrective actions to address OIG recommendations are completed within one year of the resolution date. In FY 2021, FHFA completed 32 out of 36 recommendations within 365 days. The remaining four recommendations took more than 365 days to complete. This resulted in a completion rate of 89 percent of recommendations completed within 365 days.

The measure is calculated by counting the days from final management decision for implementing a recommendation to the completion of the corrective action during the fiscal year. One of the corrective actions was tied to a new examination cycle, which could not be resolved within one year due to the timing of examinations, while another was tied to the completion of a complex project involving the retirement of IT assets that took longer than expected to complete. FHFA is working to revise its service models and automate manual audit tracking and follow up processes. This is expected to improve visibility and accountability and will enable FHFA to meet this target.

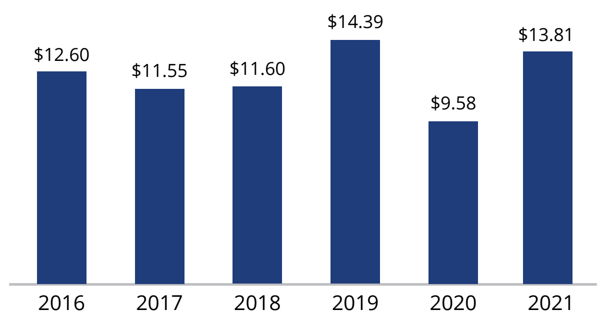
PERFORMANCE MEASURE 3.2.4

Increase the dollar amount of FHFA contracts awarded to MWOBs consistent with legal standards

This measure demonstrates the effectiveness of the initiatives and actions in which FHFA engaged in FY 2021 to increase greater opportunities for diverse firms, as required by Section 342 of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. The measure reports the total number of FHFA contracting actions with MWOBs and the number and percentage of contracts awarded to MWOBs. In FY 2021, $13,807,060 of the Agency's contract dollars went to MWOBs, which represents 24.5 percent of the Agency's total spend. By comparison, $42,655,673 of the Agency's contract dollars went to non-MWOBs. During FY 2021, FHFA continued to engage external and internal partners and stakeholders and look for opportunities that might provide FHFA access to MWOB goods or services.

Figure 13: Obligated Amount to MWOBs

(in $ millions)



Strategic Objective 3.3: Deliver information technology resources and systems that support the Agency's mission and safeguard the Agency's resources

The Agency provides responsive, secure, and efficient IT capabilities which are essential to FHFA's ability to accomplish its mission. In FY 2021, FHFA monitored three measures for Strategic Objective 3.3 and met the targets for all three measures.

Table 16: Strategic Objective 3.3 – Summary of Performance Measures and Results							
Strategic Objective 3.3: Deliver information technology resources and systems that support the Agency's mission and safeguard the Agency's resources							
Performance Measure	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021 Target**	**FY 2021 Result**
3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	MET	MET	MET	MET	MET	100 percent of the time	MET
3.3.2: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	N/A	N/A	N/A	MET	MET	99.5 percent of the time	MET
3.3.3: Determine average user response on FHFA help desk ticket surveys	N/A	N/A	N/A	N/A	N/A	4.5 rating on a scale of 0 to 5	MET

PERFORMANCE MEASURE 3.3.1

Ensure FHFA's FISMA audit identifies no significant deficiencies

This measure reports on the effectiveness of security and privacy controls that FHFA uses to secure the Agency's information and systems. The FHFA OIG FISMA report will include any significant deficiencies. The FISMA audit identified no significant deficiencies or material weaknesses. The audit made three recommendations for improvement, one of which FHFA remediated during the audit period. The final report can be found at FISMA Audit AUD-2022-002.

PERFORMANCE MEASURE 3.3.2

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

Service availability is a metric that represents the percentage of time that IT service is successfully operational. Service availability is a continuous measure. Each quarter FHFA achieved more than 99.5 percent availability, and the average service availability for the year is 99.995 percent of the time, which exceeds the target set for this measure.

PERFORMANCE MEASURE 3.3.3

Determine average user response on FHFA help desk ticket surveys

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

This measure provides all employees and contractors an opportunity to rate the service they received on a rating that ranges from 0 to 5 with 5 reflecting outstanding service. Each quarter, FHFA averaged greater than the 4.50 target. The annual average score of help desk ticket surveys is 4.85, which exceeds the target set for this measure.

Changed and Discontinued Measures

Table 17: FY 2020 Performance Measures Changed in FY 2021[22]		
Strategic Goal 1: Ensure Safe and Sound Regulated Entities		
Language in 2020	**Language in 2021**	**Why Changed**
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 **Target** 100 percent of the time	**1.1.1a:** Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2021 **Target** 100 percent of the time **1.1.1b:** Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks **Target** 100 percent of the time	For FY 2021, FHFA refined this measure to report on the Enterprises and the FHLBanks separately.
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 **Target** 100 percent of the time	**1.1.2 a:** Approve reports of examination by March 31, 2021 for the Enterprises **Target** 100 percent of the time **1.1.2b:** Approve reports of examination within 90 days after completing examination work for each of the FHLBanks **Target** 100 percent of the time	For FY 2021, this measure was split into two to separate the Enterprises' results from the FHLBanks' results.
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 time frames **Target** 90 percent of the time	**1.1.5a:** Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and time frames **Target** 90 percent of the time **1.1.5b:** Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and time frames **Target** 90 percent of the time	For FY 2021, FHFA refined this measure to report on the Enterprises and the FHLBanks separately.

22 FHFA updated its strategic goals in October 2021. The strategic goals and objectives listed here are those from the FY 2018 – 2022 Strategic Plan, which was in effect for the FY 2020 PAR.

Table 18: FY 2020 Performance Measures Discontinued in FY 2021			
Strategic Goal 1: Ensure Safe and Sound Regulated Entities			
Strategic Goal/Strategic Objective	**FY 2020 Target**	**FY 2020 Results**	**Why Discontinued**
Strategic Objective 1.1: Assess the Safety and Soundness of Regulated Entity Operations			
1.1.5: Ensure that supervisory correspondence to the Enterprises adheres to division guidance	100 percent of the time	MET	This measure was replaced with a horizontal review measure that is more outcome focused. See measure 1.2.1 on page 37 of this report for reference.
Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships			
Strategic Goal/Strategic Objective	**FY 2020 Target**	**FY 2020 Results**	**Why Discontinued**
Strategic Objective 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	Based on Agency priorities for the fiscal year, this measure was determined to be better suited as a means and strategy.
3.1.2: Provide the 2019 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises	December 31, 2018	MET	Based on Agency priorities for the fiscal year, this measure was determined to be better suited as a means and strategy.
3.1.3: Communicate conservator decisions on the Enterprises' administrative expenses for Calendar Year 2019	January 31, 2019	MET	Based on Agency priorities for the fiscal year, this measure was determined to be better suited as a means and strategy.
3.1.4: Monitor and rate the Enterprises' performance against current Scorecard objectives	Complete quarterly assessment within 30 days of the end of each quarter	NOT MET	In FY 2020, FHFA held quarterly assessment meetings within 30 days of the end of the quarter (target) for all but one quarter. For that quarter FHFA had agreed to postpone its assessment meeting with an Enterprise by one day to accommodate a request from Enterprise management. Based on Agency priorities for the fiscal year, this measure was determined to be better suited as a means and strategy. The current conservatorship measures (please see SO 1.3 on page 38) are more outcome focused.
3.1.5: Provide timely responses on items submitted to FHFA for conservator decision.	95 percent of conservatorship decisions on matters requiring Agency approval are made and communicated within 90 days of receipt	NOT MET	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. While timely communication with the Enterprises remains a priority for the Agency, based on Agency priorities for the fiscal year, this measure was determined to be better suited as a means and strategy.

FINANCIAL SECTION

Message from the Chief Financial Officer

FHFA received an unmodified audit opinion on its FY 2021 financial statements from the Government Accountability Office (GAO). FHFA has received an unmodified audit opinion every year since its inception in July 2008.

The Agency's internal controls over financial reporting have been consistently reviewed and updated to ensure that they operate effectively in their design and operation, which has contributed to our sustained record of unmodified opinions on the Agency's financial statements.

Fiscal Year 2021 was the second year of the COVID-19 pandemic and the Agency maintained its mandatory telework status the entire year. Our employees have adapted to this virtual environment and the important work of the Agency continued unabated by the pandemic, all the while our internal control environment remained robust and effective, and the Agency remained a responsible steward of its resources. With COVID vaccinations becoming mandatory for all federal workers, FY 2022 offers hope for a safe return to the office.

In June, the Agency experienced a change in leadership as Sandra L. Thompson was appointed by President Biden to be the Acting Director for the Agency. The Acting Director has established revised priorities for the Agency, and the Agency's FY 2022 budget fully supports these priorities.

I continue to be 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 the ability of FHFA to achieve its important mission.

Sincerely,

Mark Kinsey
Chief Financial Officer
November 8, 2021

Independent Auditor's Report

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
A Century of Non-Partisan Fact-Based Work

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Acting Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2021 and 2020 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, 2021, and 2020, 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, 2021; and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis-of-matter paragraph related to the conservatorships of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), and 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, 2021, and 2020; 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, 2021, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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

<u>Management's Responsibility</u>

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing,

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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.

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, 2021, 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.

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

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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.

Independent Auditor's Report

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, 2021, and 2020, 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 2021 and 2020 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA.[5] FHFA's goal in placing the two entities into conservatorship was to stabilize them with the objective of maintaining normal business operations and restoring safety and soundness. The Department of the Treasury has provided Fannie Mae and Freddie Mac about $191 billion in direct financial support. Following criteria in Statement of Federal Financial Accounting Standards No. 47 (SFFAS 47), *Reporting Entity*, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of Fannie Mae and Freddie Mac would not be consolidated into federal reporting entity financial statements.

[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

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 2021 and 2020 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, 2021, based on criteria established under FMFIA.

During our fiscal year 2021 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.

Independent Auditor's Report

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 2021 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 GAO's audit opinions 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 reprinted in appendix II.

Beryl H. Davis

Beryl H. Davis
Director
Financial Management and Assurance

November 8, 2021

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, 2021, 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, 2021, FHFA's internal control over financial reporting was effective.

Sandra L. Thompson
Acting Director

Mark Kinsey
Chief Financial Officer

November 8, 2021

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 8, 2021

Ms. Beryl H. Davis
Director, Financial Management and Assurance
U. S. Government Accountability Office
441 G Street, NW
Washington, D. C. 20548

Dear Ms. Davis:

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 2021 and 2020 Financial Statements (GAO-22-105109). This report presents GAO's opinion on the financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2021 and 2020. The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2021, and GAO's evaluation of FHFA's compliance with laws and regulations.

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

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

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

Sincerely,

Sandra L. Thompson
Acting Director

Federal Housing Finance Agency

Consolidated Balance Sheets

As of September 30, 2021 and 2020

(In Thousands)

	2021	2020
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 15,624	$ 16,328
Investments - Note 3	130,025	98,300
Advances and Prepayments	655	635
Total Intragovernmental	146,304	115,263
With the Public		
Accounts Receivable, Net - Note 4	5	4
General Property, Plant, and Equipment, Net - Note 5	13,635	15,672
Advances and Prepayments	2,161	2,931
Total With the Public	15,801	18,607
Total Assets	$ 162,105	$ 133,870
Liabilities:		
Intragovernmental		
Accounts Payable	$ 883	$ 795
Advances from Others and Deferred Revenue	1,610	1,420
Other Liabilities, Net - Note 7	2,524	2,073
Total Intragovernmental	5,017	4,288
With the Public		
Accounts Payable	8,052	8,171
Federal Employee Benefits Payable		
Unfunded Leave	20,501	18,276
FECA Actuarial Liability	201	223
Other Liabilities, Net - Note 7		
Deferred Lease Liability	17,923	20,107
Other Liabilities	8,822	7,696
Total With the Public	55,499	54,473
Total Liabilities	$ 60,516	$ 58,761
Commitments and Contingencies - Note 9		
Net Position:		
Cumulative Results of Operations - Funds from other than Dedicated Collections	$ 101,589	$ 75,109
Total Net Position - Funds from other than Dedicated Collections	101,589	75,109
Total Net Position	101,589	75,109
Total Liabilities and Net Position	$ 162,105	$ 133,870

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, 2021 and 2020

(In Thousands)

	2021		2020	
Gross Program Costs by Strategic Goal: Note 10:				
Program				
Gross Costs	$	317,555	$	296,618
Less: Earned Revenue		(336,854)		(314,010)
Net (Income From)/Cost of Operations	**$**	**(19,299)**	**$**	**(17,392)**
Safety and Soundness		169,936		161,933
Liquid, Efficient, and Resilient Markets		58,434		61,866
Strengthen the Workforce and Infrastructure		89,185		72,819
Gross Program Costs	$	317,555	$	296,618
Less: Total Earned Revenue not Attributable to Strategic Goals		(336,854)		(314,010)
Net (Income From)/Cost of Operations	**$**	**(19,299)**	**$**	(17,392)

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, 2021 and 2020

(In Thousands)

	2021	2020
Cumulative Results of Operations:		
Beginning Balance	$ 75,109	$ 51,766
Imputed Financing Sources	7,187	5,951
FOIA Collections (Transfer out)	(5)	-
Total Financing Sources	7,182	5,951
Net Cost of Operations	19,299	17,392
Net Change	26,481	23,343
Cumulative Results of Operations	**$ 101,589**	**$ 75,109**
Net Position	**$ 101,589**	**$ 75,109**

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, 2021 and 2020

(In Thousands)

		2021		2020
Budgetary Resources:				
Unobligated Balance From Prior Year Budget Authority, Net - Note 11		65,847		39,989
Appropriations - Note 1.D		335,328		312,584
Spending Authority From Offsetting Collections		47,739		47,175
Total Budgetary Resources	**$**	**448,914**	**$**	**399,748**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Total)	$	363,459	$	343,753
Unobligated Balance, End of Year:				
Exempt from Apportionment, Unexpired Accounts		85,455		55,995
Unexpired Unobligated Balance, End of Year		85,455		55,995
Unobligated Balance, End of Year, Total		85,455		55,995
Total Budgetary Resources	**$**	**448,914**	**$**	**399,748**
Outlays, Net:				
Outlays, Net (Total)		304,307		285,152
Distributed Offsetting Receipts		(335,328)		(312,584)
Agency Outlays, Net	**$**	**(31,021)**	**$**	**(27,432)**

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, 2021 and 2020

Note 1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

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

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

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

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

Both Enterprises, acting through FHFA as their Conservator, entered into separate Senior Preferred Stock Purchase Agreements with the Treasury Department on September 7, 2008. The Senior Preferred Stock Purchase Agreements were amended and restated on September 26, 2008. The amended and restated Senior Preferred Stock Purchase Agreements (SPSPAs) and the senior preferred stock certificates were further amended by the first (May 6, 2009), second (December 24, 2009), and third (August 17, 2012) amendments, as well as by letter agreements between the Enterprises and Treasury, executed in 2017, 2019, and 2021. The SPSPAs commit the Treasury

Department to provide funding, up to a maximum available funding commitment, for each Enterprise to ensure that each Enterprise maintains a non-negative net worth, thereby avoiding a statutory requirement that an Enterprise be put in receivership. Under the SPSPAs, each Enterprise notifies FHFA of its net worth position as established by its financial statements (e.g., 10-K or 10-Q). Each Enterprise also submits a statement certifying compliance with SPSPA covenants, which include limits on portfolio size and indebtedness. FHFA, in its role as Conservator, reviews Enterprise financial statements, and, if an Enterprise's liabilities exceed its assets may submit a request to the Treasury Department to draw upon the Treasury Department's remaining funding commitment prior to the end of the current quarter.

The SPSPAs also require the Enterprises to pay a dividend in exchange for the Treasury Department's investment. The Third amendment changed the dividend owed to the Treasury Department from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance. Amendments to the SPSPAs and stock certificates made pursuant to January 14, 2021 letter agreements between the Enterprises and the Treasury Department currently allow the Enterprises to continue to retain earnings until they satisfy the requirements, including buffers, of FHFA's 2020 Enterprise capital rule. Pursuant to the January 14, 2021 letter agreements, upon achievement of the requirements the Enterprises will resume quarterly dividend payments.

B. BASIS OF PRESENTATION

FHFA's principal statements were prepared from its official financial records and general ledger in conformity with U.S. Generally Accepted Accounting Principles (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.

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the *Financial Report of the United States Government*. The presentation of the fiscal year 2020 Balance Sheet was modified to be consistent with the fiscal year 2021 presentation.

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 Statements 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 2021 and FY 2020 in August 2020 and 2019, respectively. By law, FHFA is required to charge semi-annual assessments to the entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the entities, plus amounts determined by the head of the Agency to be necessary for maintaining a working capital fund.

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

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

E. USE OF ESTIMATES

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

F. FUND BALANCE WITH TREASURY

The Treasury 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 2021 and FY 2020, 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.

I. GENERAL 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
Leashold Improvements	$	250,000
Software: Internally Developed	$	500,000
Software: Off-the-Shelf	$	500,000
Capitalized Leases	$	250,000

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

The useful life classifications for capitalized assets are as follows:

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

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

J. ADVANCES AND PREPAID CHARGES

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

K. LIABILITIES

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

FHFA reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another federal 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 realized budgetary resources including new budget authority, unobligated balances of budgetary resources at the beginning of year or net transfers of prior year balances during the year, spending authority from offsetting collections and recoveries of unexpired budget authority. These consist of accounts payable, accrued payroll and benefits, and capital lease liabilities. Accounts payable represents amounts owed to employees for travel related expenses and other entities for goods ordered and received and for services rendered. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year. The Department of Labor (DOL) is the central paying agent for all workman compensation claims filed under the Federal Employees' Compensation Act (FECA). FHFA obligates funds for potential FECA claims each fiscal year. These obligations for FECA 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. Supervisors and managers (below EL-15) may carryover up to 480 hours of annual leave each year. The FHFA Leadership Level's equivalent to the Senior Executive Service employees may accrue annual leave of eight (8) hours each pay period, which is consistent with the government-wide rules for Senior Executive Service level employees and FHFA executives may carry over annually up to 720 hours of annual leave. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. 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, 17.3 percent for FERS, 35.8 percent for FERS Law Enforcement Officer (LEO), 15.5 percent for FERS-RAE and FERS-FRAE, and 34.0 percent for FERS-RAE LEO and FERS-FRAE LEO. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. FERS employees are automatically enrolled in TSP and 5.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security. The 2021 maximum taxable wage base for Social Security is $142,800.

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

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

In addition to the TSP, FHFA offers a supplemental 401(K) plan. All CSRS and FERS employees are eligible to contribute to the 401(K). All eligible employees that participate 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 liabilties, in the accompanying Balance Sheet and Statement of Net Cost, when they are both probable and can be reasonably estimated. FHFA discloses contingencies in the notes to the financial statements when a loss from the outcome of future events is more than remote but less than probable or when the liability is probable but cannot be reasonably estimated.

O. CLASSIFIED ACTIVITIES

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

P. INTER-ENTITY COSTS

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

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The unobligated and obligated balances reported in the FBWT may not equal related amounts reported on the Combined Statements of Budgetary Resources. The unobligated and obligated balances reported on the Combined Statements of Budgetary Resources are supported by the FBWT, as well as other budgetary resources that do not affect the FBWT (i.e., unfilled customer orders). The funds in the working capital fund were fully invested during FY 2021 and FY 2020. FBWT account balances as of September 30, 2021 and 2020 were as follows (dollars in thousands):

	2021		2020	
Status of Fund Balance with Treasury:				
Unobligated Balance				
Available	$	85,455	$	55,995
Obligated Balance Not Yet Disbursed		60,194		58,633
Investments		(130,025)		(98,300)
Total	**$**	**15,624**	**$**	**16,328**

Note 3. Investments

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

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

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

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, 2021 or 2020. Interest earned on investments was $99 thousand and $1.2 million for FY 2021 and FY 2020, respectively.

Note 4. Accounts Receivable, Net

Accounts Receivable balances as of September 30, 2021 and 2020 were as follows (dollars in thousands):

	2021	2020
Intragovernmental		
Accounts Receivable	$ -	$ -
Total Intragovernmental Accounts Receivable	**$ -**	**$ -**
With the Public		
Accounts Receivable	$ 5	$ 8
Allowance for Uncollectible Accounts Receivable	$ -	$ (4)
Total Public Accounts Receivable	**$ 5**	**$ 4**
Total Accounts Receivable	**$ 5**	**$ 4**

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

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

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

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**

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, 2021 consist of the following (dollars in thousands):

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

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**

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, 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, 2021 and September 30, 2020 consist of the following (dollars in thousands):

	2021	2020
Intragovernmental Liabilities		
Benefit Program Contributions Payable	$ 2,088	$ 1,706
Employer Contributions and Payroll Taxes Payable	436	367
Total Intragovernmental Other Liabilities	**$ 2,524**	**$ 2,073**
With the Public		
Deferred Lease Liability	$ 17,923	$ 20,107
Employer Benefit Contributions	720	637
Accrued Funded Payroll	8,018	6,919
Employee Related Refunds Due	3	3
Capital Lease Liability	81	137
Total With the Public Other Liabilities	**$ 26,745**	**$ 27,803**

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 December 1, 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 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. Vacated space as of 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 January 30, 2022. 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. FHFA OIG took 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, 2031.

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. FHFA OIG vacated the space in August 2021.

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. The OA terms of 111 S 10th Street expire on January 31, 2032.

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 following table contains the minimum future payments (dollars in thousands) for non-cancellable operating leases with terms longer than one year, i.e., for the 400 7th Street SW non-federal lease. The federal leases all contain cancellation clauses; therefore, these leases are not included in the table.

Fiscal Year	Amount
2022	$ 20,676
2023	21,093
2024	21,515
2025	21,946
2026	22,385
After 5 Years	7,518
Total Future Payments	**$ 115,133**

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.

	2021	2020
Summary of Assets Under Capital Lease		
Machinery and Equipment (Copiers)	$ 274	$ 274
Accumulated Amortization	(193)	(137)
Net Value	**$ 81**	**$ 137**

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

Fiscal Year		Amount
2022		134
2023		56
Total Future Payments	$	190
Less: Imputed Interest	$	(2)
Less: Executory Costs	$	(107)
Net Capital Lease Liability	$	81
Capital Lease Liabilities Covered by Budgetary Resources	$	190
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, 2021 and 2020.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the regulated entities. The regulated entities include Freddie Mac, Fannie Mae, the FHLBanks, and the Office of Finance. FHFA tracks program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. Strategic Goals 1) Safety and Soundness; 2) Liquid, Efficient, and Resilient Markets; and 3) Strengthen the Workforce and Infrastructure, guide program offices to carry out FHFA's vision and mission. FHFA has an indirect program support element which is distributed proportionately to Strategic Goals 1 – 3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA OIG costs are allocated as part of FHFA's indirect program support element. Earned revenue is reported at the total level only. A comparison of program costs should not be drawn as FHFA's Strategic Goals changed between FY 2021 and FY 2020 and the data is not a direct comparison between the two years.

FHFA's revenue was provided by the regulated entities through assessments. FHFA OIG's spending authority is a combination of unobligated funds carried forward from the previous year and the transfer of new assessments from FHFA for the current year. For both FY 2021 and FY 2020 the combined total spending authority for the FHFA OIG was $49.9 million annually. FHFA OIG's gross expenses for FY 2021 and FY 2020 were $48.4 million and $48.1 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):

	2021	2020
Safety and Soundness		
Intragovernmental Costs	$ 32,461	$ 33,438
Public Costs	137,475	128,495
Gross Safety and Soundness Program Costs	**169,936**	**161,933**
Liquid, Efficient, and Resilient Markets		
Intragovernmental Costs	12,006	13,375
Public Costs	46,428	48,491
Gross Liquid, Efficient, and Resilient Markets Program Costs	**58,434**	**61,866**
Strengthen the Workforce and Infrastructure		
Intragovernmental Costs	18,073	7,353
Public Costs	71,112	65,466
Gross Strengthen the Workforce and Infrastructure Program Costs	**89,185**	**72,819**
Total Intragovernmental Costs	62,540	54,166
Total Public Costs	255,015	242,452
Gross Program Costs	317,555	296,618
Less: Total Intragovernmental Earned Revenue	(1,620)	(2,622)
Less: Total Public Earned Revenue	(335,234)	(311,388)
Total Net Cost of Operations	**$ (19,299)**	**$ (17,392)**

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):

	2021	2020
Unobligated Balance Brought Forward, October 1	$ 55,995	$ 34,317
Recoveries of Prior Year Obligations	9,476	4,972
Other Changes in Unobligated Balance	376	700
Unobligated Balance from Prior Year Budget Authority, Net	**$ 65,847**	**$ 39,989**

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, 2021, and 2020, the unobligated balance was $85.4 million and $56.0 million, respectively. FHFA may retain the FY 2021 unobligated balance of $47.0 million for operating expenses or for the working capital fund during FY 2022. FHFA retained a portion of the FY 2020 unobligated balance to reimburse the working capital fund and increase the working capital fund balance to $38.4 million and retained $4.7 million for unforeseen Enterprise-related operating expenses during FY 2021. (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 2023 President's Budget will include the actual budgetary execution information for FY 2021. The FY 2023 President's Budget is scheduled for publication in February 2022 and can be found at the OMB Website.[23] The FY 2022 President's Budget, with the "Actual" column completed for 2020, has been reconciled to the FY 2020 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	$ 399,748	$ 343,753	$ 312,584	$ 285,152
Rounding	252	(753)	416	(152)
Budget of the U.S. Government	400,000	343,000	313,000	285,000
Total Unreconciled Difference	**$ -**	**$ -**	**$ -**	**$ -**

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

Note 14. Undelivered Orders at the End of the Period

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

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

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**

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 $300 for the year ended September 30, 2021. Custodial collections totaled $6,000 for the year ended September 30, 2020. 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.

Comparison differences between FY 2020 and FY 2021 are due to change in format presentation between fiscal years.

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

For the Year Ended September 30, 2020	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	**$ 51,544**	**$ (68,936)**	**$ (17,392)**
Components of Net Cost Not Part of the Budgetary Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(3,604)	(3,604)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(27)	(49)	(76)
Other Assets	(22)	736	714
(Increase)/Decrease in Liabilities:			
Accounts Payable	78	2,724	2,802
Federal Employee and Veteran Benefits Payable	(510)	(1,283)	(1,793)
Other Liabilities	-	(2,241)	(2,241)
Financing Sources:			
Imputed Cost	(5,951)		(5,951)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (6,432)**	**$ (3,717)**	**$ (10,149)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	109	109
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ -**	**$ 109**	**$ 109**
Miscellaneous Items			
Distributed Offsetting Receipts (SBR 4200)	(1,197)	(311,388)	(312,584)
Appropriated Receipts for Trust/Special Funds	1,197	311,388	312,584
Total Other Reconciling Items	**$ -**	**$ -**	**$ -**
Total Net Outlays (Calculated Total)	**$ 45,112**	**$ (72,544)**	**$ (27,432)**
Budgetary Agency Outlays, Net (SBR 4210)			
Agency Outlays, Net (SBR 4210)			**$ (27,432)**

OTHER INFORMATION

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 96-104.

Table 19: Audits and Evaluations			
FHFA OIG REPORTS			
1	AUD-2021-015	FHFA Did Not Follow its Interim Directive on a Requirement to Use a FAR Clause Intended to Protect Whistleblower Rights of Contractor Employees, But Has Since Taken Corrective Action Audit	2021-09-30
2	AUD-2021-014	FHFA's Division of Enterprise Regulation Did Not Follow or Train to its Procedures for Information Sharing of Enterprise Counterparty Performance Issues	2021-09-28
3	AUD-2021-013	FHFA's Use of its Enterprise Examination Manual, in Practice, Does Not Align with its Goal of Promoting a Consistent Examination Approach or Meet Management's Expectations	2021-09-28
4	WPR-2021-008	Recent Trends in Enterprise Cash-Out Refinances	2021-09-27
5	WPR-2021-007	Enterprise Counterparties: Reinsurers	2021-09-27
6	WPR-2021-006	Interconnectedness of Enterprise Counterparties with a Common Parent Company	2021-09-27
7	OIG-2021-004	FHFA's Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director's Statutory Duty to Ensure the Enterprises Comply with FHFA's Guidelines	2021-09-20
8	AUD-2021-012	DBR Generally Followed its Guidance to Assess the Remediation of Adverse Examination Findings Issued to the FHLBanks and the Office of Finance	2021-09-02
9	OIG-2021-003	FHFA Must Resolve the Conflicts in its Guidance for Examinations of the Enterprises to Meet its Commitment to Develop and Maintain a World Class Supervision Program	2021-09-01
10	COM-2021-008	Compliance Review of FHFA's Suspended Counterparty Program	2021-08-25
11	COM-2021-007	Compliance Review of DBR's Quality Control for Examination Work Performed by Examiners-in-Charge	2021-08-25
12	WPR-2021-005	Enterprise Multifamily Variable-Rate Mortgages	2021-08-25
13	AUD-2021-011	Audit of the Federal Housing Finance Agency's 2021 Privacy Program	2021-08-11
14	AUD-2021-010	FHFA Lacked Documentation of its Validation of Data Used to Produce the Third Quarter 2020 Seasonally Adjusted, Expanded-Data FHFA HPI and Failed to Timely Review its Information Quality Guidelines	2021-07-22
15	COM-2021-006	Compliance Review of FHFA's Handling of Fannie Mae's Confidential Conservator Requests	2021-07-21
16	OIG-2021-002	Summary of Administrative Inquiry: The Office Inspector General's Review of Allegations that a Senior Agency Executive Asked Job Candidates and Subordinate Employees about Their National Origin and Made Racially Insensitive Comments	2021-07-14
17	AUD-2021-009	FHFA Did Not Record, Track, or Report All Security Incidents to US-CERT; 38 Percent of Sampled FHFA Users Did Not Report a Suspicious Phone Call Made to Test User Awareness of its Rules of Behavior	2021-06-25
18	OIG-RA-2021-001	Risk Assessment of FHFA's Government Purchase Card and Travel Card Programs April 1, 2020 – March 31, 2021	2021-06-17
19	AUD-2021-008	FHFA Did Not Always Follow its Policies for Monetary Awards, Recruitment Bonuses, and Retention Allowances during Fiscal Years 2019 and 2020; FHFA's Excellence Awards Were Not Included in Agency Policy	2021-06-17

Table 19: Audits and Evaluations			
FHFA OIG REPORTS			
20	COM-2021-005	Compliance Review of DBR's Assessment and Documentation of Critical Cybersecurity Controls in Examinations of the FHLBank System	2021-06-15
21	EVAL-2021-003	FHFA's Failure to Define and Clearly Communicate "Supervisory Concerns" Hinders the Enterprise Boards' Ability to Execute Their Oversight Obligations Under FHFA's Corporate Governance Regulation and Renders the Regulation Ineffective as a Supervisory Tool	2021-03-30
22	AUD-2021-007	Despite FHFA's Acknowledgement that Enterprise Reliance on Third Parties Represents a Significant Operational Risk, No Targeted Examinations of Fannie Mae's Third-Party Risk Management Program Were Completed Over a Seven-Year Period	2021-03-29
23	AUD-2021-006	Audit of an FHFA Sensitive Employment-Related Case Tracking System: FHFA Followed its Access Control Standard, But its System Is Adversely Impacted by Two Security Control Weaknesses	2021-03-29
24	WPR-2021-004	Disaster Risk for Enterprise Single-Family Mortgages	2021-03-23
25	OIG-2021-001	Landscape Report: Survey of the Impact of the SolarWinds Orion Supply Chain Compromise on FHFA and its Regulated Entities	2021-03-23
26	AUD-2021-005	FHFA's Failure to Include the Financial Crimes and Model Components in its CSS Risk Assessment Is Inconsistent with a Risk-Based Approach to Supervision	2021-03-23
27	WPR-2021-003	Enterprise Business Resiliency: Risk Mitigation and Plan Development	2021-03-22
28	EVL-2021-002	For Nine Years, FHFA Has Failed to Take Timely and Decisive Supervisory Action to Bring Fannie Mae into Compliance with its Prudential Standard to Ensure Business Resiliency	2021-03-22
29	WPR-2021-002	Update on Enterprise Transition from LIBOR to an Alternative Index for Single-Family ARMs	2021-03-17
30	AUD-2021-004	FHFA Followed OMB Guidance in Implementing its Enterprise Risk Management Program But its 2020 Risk Profile Failed to Identify a Significant Action Underway to Address Acknowledged Supervision Risk	2021-03-17
31	EVL-2021-001	Corporate Governance: Fannie Mae Senior Executive Officers and Ethics Officials Again Failed to Follow Requirements for Disclosure and Resolution of Conflicts of Interest, Prompting the Need for FHFA Direction	2021-03-15
32	COM-2021-004	Compliance Review of DER's Assessments of Enterprise MRA Closure Packages	2021-03-15
33	AUD-2021-003	Audit of FHFA's Design of Procedures and Guidance to Prevent and Reduce Improper Payments	2021-03-11
34	WPR-2021-001	Update on Mortgage Insurers as Enterprise Counterparties	2021-03-08
35	COM-2021-003	Compliance Review of FHFA's Quality Control Reviews of Enterprise Supervision Activities	2021-02-12
36	COM-2021-002	After Four and a Half Years, DER Still Fails to Ensure that Enterprise Boards are Notified of Serious Deficiencies in a Timely Manner	2021-01-21
37	COM-2021-001	Compliance Review of FHFA's Commitment to Conduct Independent Quality Control Reviews of DBR's Community Investment Examinations	2021-01-06
38	AUD-2021-002	Audit of the Federal Housing Finance Agency Office of the Inspector General's Information Security Program Fiscal Year 2020	2020-10-20
39	AUD-2021-001	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2020	2020-10-20
GAO REPORTS			
1	GAO-21-578	Congress Should Consider Updating the Mandatory Purchase Requirement	2021-07-30
2	GAO-21-448T	Using Data to Promote Greater Diversity and Inclusion	2021-03-18
3	GAO-21-219	Home Foreclosure Sales: FHA, Rural Housing Service, and VA Could Better Align Program Metrics with Their Missions	2021-03-05

Table 19: Audits and Evaluations			
GAO REPORTS			
4	GAO-21-230SP	Macroprudential Oversight: Principles for Evaluating Policies to Assess and Mitigate Risks to Financial System Stability	2021-01-28
5	GAO-21-201R	Federal Housing Finance Agency's FY 2020 and FY 2019 Financial Statements	2020-11-16

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 2021.

Table 20: Management Report on Final Action on Audits with Disallowed Costs for FY 2021

	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]	0	$0
C	Total reports pending final action during the period (A and B)	0	$0
D	Final action taken during the period:	0	$0
	1. Recoveries:	0	$0
	(a) Collections and offsets	0	$0
	(b) Other	0	$0
	2. Write-offs	0	$0
	3. Total of 1(a), 1(b), and 2	0	$0
E	Audit reports needing final action at the end of the period	0	$0

Table 21: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2021			
	Audit Report	**Number of Reports**	**Funds Put to Better Use**
A	Management decisions – final action not taken at beginning of period	0	$0
B	Management decisions made during the period	0	$0
C	Total reports pending final action during the period (A and B)	0	$0
D	Final action taken during the period:	0	$0
	1. Value of recommendations implemented (completed)	0	$0
	2. Value of recommendations that management concluded should not or could not be implemented or completed	0	$0
	3. Total of 1 and 2	0	$0
E	Audit reports needing final action at the end of the period	0	$0

Table 22: Audit Reports without Final Actions but with Management Decisions Over One Year Old for FY 2021		
Report No. and Issue Date	**Recommendation**	**Management Action**
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)	Recommendation 1	Actions are expected to be completed by November 2021.
More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations (EVL-2020-003)	Recommendation 2	Supervisory guidance was updated in August 2021 to address recommendation 2. Examination activity is expected to be completed by March 2023.
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)	Recommendations 1 & 2	Actions are expected to be completed by December 2021.
Audit of FHFA's Information Security Program Fiscal Year 2020 (AUD-2021-001)	Recommendation 4	Actions are expected to be completed by December 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 December 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 15, 2021

TO: Sandra L. Thompson, Acting Director

FROM: Phyllis K. Fong, Acting Inspector General

SUBJECT: Fiscal Year 2022 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), in which the Office of Inspector General (OIG) for the Federal Housing Finance Agency (FHFA or Agency) identifies the most serious management and performance challenges facing the Agency. We have identified four serious management and performance challenges, as well as one management concern, facing the Agency, representing what OIG believes to be the areas that, if not addressed, are most likely to hinder the Agency's accomplishment of its mission.

FHFA was created in July 2008 by the Housing and Economic Recovery Act of 2008 (HERA). HERA charged FHFA to serve as regulator and supervisor of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, Enterprises); Common Securitization Solutions, LLC (CSS), an affiliate of the Enterprises; the Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities); and the FHLBanks' fiscal agent, the Office of Finance. HERA also granted the director of FHFA the discretionary authority to appoint the Agency as conservator of the regulated entities upon determining that any of the entities were in an unsafe or unsound condition or met other criteria. On September 6, 2008, the then-acting director of FHFA exercised this authority and placed Fannie Mae and Freddie Mac into conservatorships. Over 13 years later, both Enterprises remain in conservatorship.

The challenges identified in this memorandum are longstanding and remain unchanged from the last several years. FHFA's dual roles as supervisor for the Enterprises and the FHLBanks and as conservator of the Enterprises continue to present unique challenges. As supervisor, FHFA has a statutory duty to ensure that its regulated entities operate in a safe and sound manner. As conservator for the Enterprises, FHFA is directly involved in certain business and personnel decisions that are subject to supervisory oversight by FHFA and, if warranted, could be the subject of adverse examination findings. Additionally, as a supervisor of complex financial institutions, FHFA faces challenges in the areas of cybersecurity and counterparty and third-party risk. Over the last several years, FHFA also has not ensured that all of its existing controls are sufficiently robust or fully complied with by personnel.

Our audits, evaluations, and other reports continue to examine these areas. Where we have identified shortcomings or weaknesses, we have proposed recommendations to address them. Where we have confirmed that the Agency has adhered to the applicable criteria or implemented actions that satisfy our recommendations, we note that in our reports. FHFA has accepted some of our recommendations and rejected others. We issue on a regular basis a Compendium of Open Recommendations, organized by the specific risk to be mitigated. Therefore, this document does not repeat each of the findings and recommendations in our reports.

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

As HERA recognizes, FHFA's supervision of the Enterprises is of paramount importance to their safe and sound operation. History has shown that a precipitous decline in the Enterprises' safety and soundness contributed to a severe crisis in the national economy and required nearly $200 billion in taxpayer support to keep them afloat. For these reasons, we have deemed FHFA's supervision of the Enterprises – via the Agency's Division of Enterprise Regulation (DER) – to be one of four critical risks on which we have focused our oversight efforts. Since October 2014, we have issued more than 50 reports on FHFA's supervision program for the Enterprises, each of which was conducted in accordance with applicable professional standards. More than 40 of these reports, taken collectively, detailed chronic and pervasive deficiencies in the supervision program itself, as well as in its execution.

Based on our assessments of different elements of DER supervision program, in fiscal year (FY) 2017 we identified four themes among the weaknesses we observed and published them in a roll-up report. Almost five years later, our audits and evaluations conducted during FY 2021 continue to find deficiencies that fall under those themes, as well as additional shortcomings in FHFA's supervision program of the Enterprises. The four recurring themes are:

1. FHFA lacks adequate assurance that DER's supervisory resources are devoted to examining the Enterprises' highest risks.
2. FHFA and DER supervisory standards and guidance lack the rigor of those issued by other federal financial regulators.
3. FHFA and DER requirements and guidance result in inconsistent supervisory practices because they are more flexible and less prescriptive than those of other federal financial regulators.
4. DER examiners-in-charge and subordinate examiners did not follow requirements and guidance consistently for specific elements of DER's supervisory program where clear requirements and guidance did exist.

A new Deputy Director and Associate Director of DER were appointed in early 2020. We recognized in our March 2020 roll-up report that the new DER leadership, hired from outside

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FHFA, would need to assess DER's supervision program and formulate and implement plans to meaningfully remediate the deficiencies we identified in its supervision program. However, our recent work established that there still remains much to do to address these issues. Further, DER's leadership recently changed again: effective September 20, 2021, FHFA appointed the Deputy Director of its Division of Bank Regulation as the new Deputy Director of DER and made other personnel changes within the division. Regardless of who leads DER, success remediating the weaknesses in DER's supervision program will require a sustained, disciplined, and robust effort on FHFA's part, led by an accountable senior executive. This will entail diligent project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines.

At the time of our FY 2017 roll-up report and the identification of the four themes listed above, we cautioned that "[w]ithout prompt and robust Agency attention to address the shortcomings we have identified," the "safe and sound operation of the Enterprises cannot be assumed from FHFA's current supervisory program." Given that our work continues to find these same shortcomings, we continue to believe that upgrading the Enterprise supervision program – and thereby addressing the identified deficiencies effectively – is a critical challenge facing the Agency.

Select OIG Reports Issued During FY 2021 on Supervision Matters:

FHFA's Use of its Enterprise Examination Manual, in Practice, Does Not Align with its Goal of Promoting a Consistent Examination Approach or Meet Management's Expectations, AUD-2021-013, September 28, 2021

FHFA's Failure to Use its Prudential Management and Operations Standards as Criteria for Supervision of the Enterprises Is Inconsistent with the FHFA Director's Statutory Duty to Ensure the Enterprises Comply with FHFA's Guidelines, OIG-2021-004, September 20, 2021

FHFA Must Resolve the Conflicts in its Guidance for Examinations of the Enterprises to Meet its Commitment to Develop and Maintain a World Class Supervision Program, OIG-2021-003, September 1, 2021

FHFA's Failure to Define and Clearly Communicate "Supervisory Concerns" Hinders the Enterprise Boards' Ability to Execute Their Oversight Obligations Under FHFA's Corporate Governance Regulation and Renders the Regulation Ineffective as a Supervisory Tool, EVL-2021-003, March 30, 2021

For Nine Years, FHFA Has Failed to Take Timely and Decisive Supervisory Action to Bring Fannie Mae into Compliance with its Prudential Standard to Ensure Business Resiliency, EVL-2021-002, March 22, 2021

Challenge: Improve Oversight of Conservator Operations

As conservator, FHFA is vested with express authority under HERA to operate the Enterprises, including expansive authority over trillions of dollars in assets and billions of dollars in revenue. FHFA also makes business and policy decisions that influence the entire mortgage finance industry. Given the taxpayers' enormous investment in the Enterprises, the conservatorships' unknown duration, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG determined that FHFA's administration of the conservatorships has been, and continues to be, a critical risk.

For reasons of efficiency, concordant goals with the Enterprises, and operational savings, FHFA has delegated authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management. FHFA, as conservator, delegated to each Enterprise's board of directors a significant portion of day-to-day management and risk controls responsibilities. FHFA's regulations also authorize the boards to delegate execution of day-to-day operations to Enterprise employees. As conservator, FHFA has retained authority to decide specific issues and can, at any time, revoke previously delegated authority.

FHFA's governance regulations charge the Enterprises with establishing and administering "a written code of conduct and ethics that is reasonably designed to assure that its directors, officers, and employees discharge their duties and responsibilities in an objective and impartial manner." The foundation of corporate governance is the effort to recognize and mitigate conflicts of interest (COIs). Because both real and apparent COIs severely threaten the reputation and credibility of corporations, corporations impose structures and mechanisms that set forth the obligations of employees and directors to disclose situations that may present an actual or apparent COI and assign responsibility to resolve potential COIs to compliance officers and board committees.

Since 2017, we have published several reports on corporate governance which found various deficiencies relating to COIs, including but not limited to failures by a former Fannie Mae Chief Executive Officer (CEO) to timely and fully disclose potential COIs, as well as breakdowns in oversight by the Fannie Mae board and its committee tasked with resolving potential COIs. In an FY 2021 evaluation, we assessed whether Fannie Mae and its senior executive officers complied with certain governance documents related to COIs, and found a mixed record. Fannie Mae's CEO sometimes failed to make timely COI disclosures in contravention of an FHFA Directive and governance documents. Two other very senior Fannie Mae executive officers also failed to make timely disclosures in two instances, one involving a personal friendship with a contractor to whom Fannie Mae awarded approximately $25 million in contracts. We also found that sometimes Fannie Mae's ethics office substituted its own judgment for that of the Board committee tasked with resolving potential COIs. These findings lead us to continue to believe that the Agency's oversight of delegated functions remains a management challenge.

Unlike with COI matters, which have been delegated to the Enterprises to handle, the Agency has developed a process for reviewing and approving matters over which it has retained authority. One such area is the approval of compensation actions for Enterprise senior executive officers. In a 2019 evaluation, we found that a former FHFA Director overrode the Agency's internal control for approving conservator requests by reviewing and approving an Enterprise transition plan himself, without any staff analysis or recommendation, and found that FHFA's approval of the plan acted to circumvent the congressionally mandated cap on CEO

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compensation. We also found that the former FHFA Director's decision to approve the plan in a manner which violated established internal controls created an information vacuum within the particular FHFA office tasked with overseeing the conservatorship, and thereby rendered that office unable to execute its responsibilities. To address these deficiencies we made two recommendations, the second of which was to establish a process for maintaining and monitoring sensitive conservator requests in the Agency's conservator Status Tracking and Reporting System. An FY 2021 compliance review found that FHFA's corrective actions complied with our recommendation.

Select OIG Reports Issued in FY 2021 on Delegated Matters:

Corporate Governance: Fannie Mae Senior Executive Officers and Ethics Officials Again Failed to Follow Requirements for Disclosure and Resolution of Conflicts of Interest, Prompting the Need for FHFA Direction, EVL-2021-001, March 15, 2021

Select OIG Reports Issued in FY 2021 on Non-Delegated Matters:

Compliance Review of FHFA's Handling of Fannie Mae's Confidential Conservator Requests, COM-2021-006, July 21, 2021

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

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 highly sensitive private information about borrowers, including financial data and personally identifiable information. Both the Enterprises and the FHLBanks have been the targets of cyberattacks. FHFA has assessed that the Enterprises and their affiliated entity, CSS, have high inherent operational risk because of, among other things, continually evolving information security and cybersecurity risks, and recognizes that risks related to business resiliency and disaster recovery remain key management concerns for both Enterprises. Similarly, FHFA examiners identified areas that exhibited or could exhibit unacceptable operational risks in business resiliency and information security at some FHLBanks.

The Financial Stability Oversight Council (FSOC), of which FHFA is a member, has recognized the cybersecurity risk for its member agencies and recommends sustained, senior-level commitment to mitigate such risk and its potential systemic implications. According to FSOC, the COVID-19 pandemic may accelerate financial institutions' reliance on information technology through expanded use of teleworking systems and dual work locations, which may increase the risk that a cybersecurity incident may have severe consequences for those institutions.[1] FSOC has also recognized that a destabilizing cybersecurity incident could potentially threaten the U.S. financial system's stability in several ways, such as by disrupting a key financial service. FHFA officials have recognized this risk, explaining that if a cybersecurity

[1] FSOC, *2020 Annual Report* at 8-9.

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incident hinders the Enterprises' ability to perform their essential functions, there could be not only a huge immediate impact on the mortgage finance industry and mortgage liquidity gridlock, but also severe consequences for the financial services industry, homeowners, and investors.

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 2021, an independent public accounting firm under contract with OIG determined that FHFA implemented an effective information security program and complied with FISMA and related information security policies and procedures, standards, and guidelines.

In addition to the annual FISMA audit, we audit the Agency's information security controls. During FY 2021, we performed an audit that found that FHFA had not recorded, tracked, or reported all security incidents to US-CERT. Specifically, we found that FHFA did not maintain complete records of incidents and lacked written procedures for recording, tracking, or reporting security incidents. We also assessed whether a sample of FHFA employees and contractors followed a requirement in the FHFA Information System Rules of Behavior to report an apparent data breach, and found that a significant percentage of them did not do so. In another audit, we found that an internal system was impacted by security control weaknesses.

Select OIG Reports Issued during FY 2021 on FHFA's Internal Controls Over Security:

Audit of the Federal Housing Finance Agency's Information Security Program, Fiscal Year 2021, AUD-2022-001, October 15, 2021

FHFA Did Not Record, Track, or Report All Security Incidents to US-CERT; 38% of Sampled FHFA Users Did Not Report a Suspicious Phone Call Made to Test User Awareness of its Rules of Behavior, AUD-2021-009, June 25, 2021

Audit of an FHFA Sensitive Employment-Related Case Tracking System: FHFA Followed its Access Control Standard, but its System is Adversely Impacted by Two Security Control Weaknesses, AUD-2021-006, March 29, 2021

Challenge: Enhance Oversight of the Enterprises' Management of Counterparty and Third-Party Risk

The Enterprises rely on institutional counterparties such as sellers and servicers, mortgage insurers, clearinghouses, and other counterparties to provide services that are critical to their business. By doing so, they must account for and mitigate potential counterparty credit risk, which is the risk associated with the inability or failure of a counterparty to meet its contractual obligations. The Enterprises and FHFA recognize that such risk is significant. If an institutional counterparty defaults on its obligations, it could negatively impact an Enterprise's ability to operate. Our publicly reportable criminal investigations include alleged fraud by different types of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies. The Enterprises and FHFA also

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recognize that third parties that provide operational support for a wide array of professional services could also negatively impact an Enterprise's ability to operate.

According to Fannie Mae, the economic dislocation caused by the COVID-19 pandemic could lead one or more of its institutional counterparties to default on obligations to the Enterprise, which could result in significant financial losses. Fannie Mae also recognizes that if multiple single-family or multifamily servicers were to fail to meet their obligations, it could cause substantial disruption to the Enterprise's business, borrowers, and the mortgage industry.

FHFA lacks the statutory authority to directly examine the Enterprises' counterparties and third parties, so it has communicated to the Enterprises its expectations of their oversight of those entities. It also may examine the effectiveness of the Enterprises' oversight. However, an OIG audit this year found that FHFA did not complete any targeted examination of Fannie Mae's third-party risk management program over a seven-year period, notwithstanding the known significant operational risk associated with counterparties.

In light of the significant financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to oversee the Enterprises' management of risks related to their counterparties and third parties.

Select OIG Reports Issued During FY 2021 and FY 2021 Results from an OIG Criminal Investigation on Counterparty and Third-Party Matters:

FHFA's Division of Enterprise Regulation Did Not Follow or Train to its Procedures for Information Sharing of Enterprise Counterparty Performance Issues, AUD-2021-014, September 28, 2021

Despite FHFA's Acknowledgement that Enterprise Reliance on Third-Parties Represents a Significant Operational Risk, No Targeted Examinations of Fannie Mae's Third-Party Risk Management Program Were Completed Over a Seven-Year Period, AUD-2021-007, March 29, 2021

Compliance Review of FHFA's Suspended Counterparty Program, COM-2021-008, August 25, 2021

Update on Mortgage Insurers as Enterprise Counterparties, WPR-2021-001, March 8, 2021

Former President of First Mortgage Company Pleads Guilty to Bank Fraud, Money Laundering, and False Statements to a Financial Institution, Press Release, May 11, 2021

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 developing, implementing, and complying with effective internal control within the Agency. In our work over the last several years, OIG has found that the Agency has not ensured that all of its existing controls, including policies and procedures, are sufficiently robust, nor that its personnel comply fully with them. As examples, during the last year, an audit found that FHFA lacked documentation that showed it followed procedures to validate certain data used to produce an FHFA Housing Price Index used to set the conforming loan limit for the Enterprises. Another audit found exceptions related to (1) recommendation and approval requirements for monetary awards and (2) justifications for recruitment bonuses and retention allowances.

As a matter that affects both the Agency's supervision program and internal control, 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 capital.[2] Similarly, the Government Accountability Office recognizes, in its *Standards for Internal Control in the Federal Government* (also known as 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."

As discussed in our letter last year, in February 2020, OIG reported that FHFA had not engaged in a systematic workforce planning process for DER, notwithstanding its commitment to do so seven years earlier, and we made one recommendation to FHFA to address this shortcoming.[3] In response, FHFA described actions it was taking in conjunction with the realignment of the Agency's structure announced in January 2020. Specifically, 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." While FHFA has initiated actions that show promise to address the intent of the recommendation, those actions are in an early state, and we cannot yet determine whether these actions address all aspects of the OIG recommendation. Accordingly, the recommendation remains open. It is critical that FHFA address FHFA-wide organizational workforce issues to ensure the requirements of the Green Book are met.

Effective internal control requires effective leadership. We are mindful that FHFA has also undergone significant leadership changes in the past several years. Most recently, an Acting Director was appointed in June 2021, and several other key senior positions have been filled in an acting capacity. It is important for new leadership to demonstrate a commitment to effective internal control.

[2] 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.

[3] *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, Feb. 25, 2020.

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Select OIG Reports Issued During FY 2021 on Internal Controls over Agency Operations:

FHFA Did Not Follow its Interim Directive on a Requirement to Use a FAR Clause Intended to Protect Whistleblower Rights of Contractor Employees, But Has Since Taken Corrective Action, AUD-2021-015, September 30, 2021

FHFA Lacked Documentation of its Validation of Data Used to Produce the Third Quarter 2020 Seasonally Adjusted, Expanded-Data FHFA HPI and Failed to Timely Review its Information Quality Guidelines, AUD-2021-010, July 7, 2021

FHFA Did Not Always Follow its Policies for Monetary Awards, Recruitment Bonuses, and Retention Allowances during Fiscal Years 2019 and 2020; FHFA's Excellence Awards Were Not Included in Agency Policy, AUD-2021-008, June 17, 2021

FHFA Followed OMB Guidance in Implementing its Enterprise Risk Management Program But its 2020 Risk Profile Failed to Identify a Significant Action Underway to Address Acknowledged Supervision Risk, AUD-2021-004, May 17, 2021

*****

cc: Daniel E. Coates, Senior Advisor
Danielle Walton, Acting Chief of Staff
Katrina D. Jones, Acting Chief Operating Officer
Clinton Jones, General Counsel
John Major, Internal Controls and Audit Follow-Up Manager

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Summary of Financial Statements Audit and Management Assurances

Table 23: 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 24: Summary of Management Assurances						
Effectiveness of Internal Control Over Financial Reporting (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control Over Operations (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (Federal Management Financial Integrity Act Paragraph 4)						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non- Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non- Conformances	0	0	0	0	0	0

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

Payment Integrity

The 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. The act defines "significant improper payments" as the gross annual improper payments exceeding either: a) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported; or b) $100 million (regardless of the percentage of total program outlays).

FHFA, which is funded with non-appropriated funds, complies in spirit with the Act, and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA 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.

Civil Monetary Penalty Adjustment for Inflation

Table 25: Civil Monetary Penalty Adjustment for Inflation					
ENFORCEMENT REGULATIONS:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
Safety and Soundness Act 12 U.S.C. 4636 (b) (1)	First Tier	2008	2020	$12,023	Federal Register 86 (January 2021) 7493 – 7496
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2020	$60,115	Federal Register 86 (January 2021) 7493 – 7496
Safety and Soundness Act - 12 U.S.C. 4636 (b) (4)	Third Tier – Entity affiliated party and regulated entity	2008	2020	$2,404,608	Federal Register 86 (January 2021) 7493 – 7496
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	$11,803	Federal Register 86 (January 2021) 7493 – 7496
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (2)	Maximum penalty per false statement	2009	2020	$11,803	Federal Register 86 (January 2021) 7493 – 7496
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	$585	Federal Register 86 (January 2021) 7493 – 7496
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum total penalties assessed against an Enterprise in a CY	2009	2020	$168,631	Federal Register 86 (January 2021) 7493 – 7496

APPENDIX

Glossary

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

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

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.

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

Low-Income Housing Tax Credit (LIHTC) – The primary government program available to address the shortage of affordable rental housing through the creation and preservation of affordable units in underserved areas throughout the country.

Mark-to-Market (MTM) – Mark-to-market risk refers to the market price volatility or sensitivity associated with CRT issuances. The Enterprises are exposed to mark-to-market risk for some CRT transactions. Changes in fair market values may have a negative financial performance or capital impact.

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.

Memorandum of Understanding (MOU) – A legal document describing a bilateral agreement between parties. It expresses a convergence of will between the parties, indicating an intended common line of action, rather than a legal commitment.

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

Real Estate Owned (REO) – Foreclosed properties owned by Fannie Mae and Freddie Mac.

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

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

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

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

Performance Measure Validation and Verification Template

Strategic Goal: ______________________________

Strategic Objective: ______________________________

Measure: ______________________________

____

Target: ______________________________

Goal Leader: ______________________________

Contact: ______________________________

Office: ______________________________

Definition

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

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

____

____

____

Relevance of Measure

a. Why is this measure important to the agency?

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

____

____

____

Verification

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

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

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

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

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Verification Source

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

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

____

____

____

Data Constraints

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

____

____

____

Open Recommendations

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

____

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Acknowledgements

This PAR was produced through the energies and talents of FHFA staff. To them we offer our sincerest thanks and acknowledgement.

We would like to acknowledge the U.S. Government Accountability Office for the professional manner in which it conducted the audit of FHFA's FY 2021 Financial Statements.

This PAR was published with the assistance of LRG, Inc., Washington, D.C.

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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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