



Performance and Accountability Report

2009



The background features a large, light blue circular logo for the Federal Housing Finance Agency (FHFA). The logo contains a stylized house icon with the letters 'FHEFA' inside it. The words 'FEDERAL HOUSING' are written along the top arc of the circle, and 'FINANCE AGENCY' is written along the bottom arc. Two stars are positioned on the left and right sides of the circle.

Federal Housing Finance Agency Mission

Provide effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.



FEDERAL HOUSING FINANCE AGENCY

Performance and Accountability Report

2009

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Federal Housing Finance Agency Key Management Officials



Message from the FHFA Acting Director

On behalf of its dedicated employees, I am pleased to present the FY 2009 Performance and Accountability Report for the Federal Housing Finance Agency (FHFA). FHFA came into being on July 30, 2008, so this represents the agency's first full-year Performance and Accountability Report. During Fiscal Year 2009 FHFA has been hard at work overseeing the safety and soundness, and mission activities of all of the housing-related government-sponsored enterprises (GSEs) it regulates—Freddie Mac, Fannie Mae (also called the Enterprises), and the 12 Federal Home Loan Banks (FHLBanks) (collectively the “regulated entities”). Agency priorities have also included programs to promote the stability of the housing market and address the challenges related to preventing foreclosures.

During the past year the nation's housing finance system, and its financial system generally, experienced stress, the likes of which we have not seen since the Great Depression. FHFA played a leadership role in working with other government agencies, the regulated entities, and market participants in responding to the housing finance crisis. In particular, FHFA played a key role with the Obama Administration in developing and implementing the Making Home Affordable Program, a series of initiatives designed to avoid preventable foreclosures and to enable households to refinance into lower cost mortgages.

This report describes FHFA's many accomplishments and challenges during the past year. It lists the goals and performance measures FHFA established for itself at the start of the year and reports on the agency's progress on each. It also describes the challenges ahead for FHFA and for the regulated entities.

Conservatorship of Fannie Mae and Freddie Mac

FHFA placed Fannie Mae and Freddie Mac into conservatorship on September 6, 2008. At that time, as a result of substantial deterioration in the housing markets, FHFA, along with the Department of Treasury and the Federal Reserve Board, recognized that Fannie Mae and Freddie Mac would be unable to fulfill their mission given their financial condition without government intervention.

Through September 30, 2009, combined losses at the two Enterprises depleted their respective capital bases and required them to draw \$96 billion from the U.S. Treasury under the Preferred Stock facility. By that date Treasury had also purchased approximately \$192 billion of their mortgage-backed securities. The Federal Reserve Board had also supported the mortgage market through purchase of Fannie Mae and Freddie Mac mortgage-backed securities (\$832 billion) and the purchase of Fannie Mae, Freddie Mac, and Federal Home Loan Bank debt (\$132 billion). This combined commitment of resources and support has allowed Fannie Mae and Freddie Mac to continue providing a secondary market for mortgages.

Federal Home Loan Banks

The FHLBank System continued to serve its core function of providing liquidity to financial institutions through collateralized loans (called advances). When financial markets seized in September and October last year, FHLBank advance demand soared, and outstanding advances reached an all-time high of more than \$1 trillion. Since then, advance demand has declined. By the end of September 2009, the FHLBanks' advance balances had dropped by more than 30 percent from the all-time high.

During FY2009, FHFA worked closely with the FHLBanks to address significant accounting issues for other-than-temporary impairments related to private-label mortgage-backed securities and to develop a common accounting platform for their private-label mortgage-backed securities. Such securities have not performed well during the economic downturn, with many losing market value or having their investment-grade status lowered. Declining property values coupled with defaults by property owners were major factors in credit losses experienced by certain FHLBanks, the Enterprises, and other investors on their holdings of private-label mortgage-backed securities.

Despite managing a decline in advances and a drop in the value of private-label mortgage-backed securities, all FHLBanks met their capital-to-assets requirement of four percent and their leverage capital requirement of five percent on September 30, 2009. All FHLBanks also met applicable risk-based capital requirements on that date, although one FHLBank failed to meet those requirements in the second and third quarters of FY 2009. As FHFA's Acting Director, I exercised my authority to classify that one FHLBank as "Undercapitalized" as of September 30, 2009, a continuation of the classification assigned to the FHLBank in the previous two quarters. That FHLBank is therefore restricted from paying dividends or redeeming capital stock from its members until it demonstrates sustained improvements in performance and capital strength.

Program Data and Financial Performance

In addition to working on the many challenges related to overseeing the housing GSEs, FHFA made substantial progress in establishing the infrastructure, policies, and processes needed to organize and run a federal agency. Besides integrating staff and cultures from three agencies (the former Federal Housing Finance Board (FHFB), the former Office of Federal Housing Enterprise Oversight (OFHEO), and the Department of Housing and Urban Development (HUD)), FHFA successfully combined the personnel and financial systems of its two predecessor agencies (FHFB and OFHEO) and established an information technology infrastructure to serve the new agency. These important building block activities will serve as the foundation for accomplishing the agency's mission in the years ahead.

At the outset of the fiscal year, as FHFA adjusted to having placed the Enterprises in conservatorship, responded to the near-meltdown of the global financial system, and began the operational efforts needed to stand up the new agency, it established a set of performance goals and measures, numbering 61 in all. This ambitious performance agenda drove much, but not all, of our activities during the

year. The extraordinary uncertainty in the marketplace, and FHFA's unanticipated significant new responsibilities that resulted from the housing finance crisis, necessitated a reprioritization of efforts and some shifting of resources. For example, the Making Home Affordable program, which demanded a substantial investment of FHFA staff resources, was not envisioned at the start of the year. Yet the agency's involvement, at the request of the new Obama Administration, fit perfectly with FHFA's mission and staff responded enthusiastically to the opportunity to be part of helping homeowners struggling with unsustainable mortgages.

As this report describes, FHFA accomplished or substantially accomplished 66 percent of its 61 goals and did not accomplish 26 percent of them. The remainder were deemed not relevant and not pursued as the year unfolded. Of the 16 measures not achieved, 3 were achieved during the year but not within the timeframe established at the start of the year. Others were beyond our control, such as establishing an Office of the Inspector General, which awaits a Presidential nomination, and confirmation by the Senate. It also became clear early in the conservatorships that the safety and soundness measures established for the Enterprises, which were originally formulated pre-conservatorship, would not be meaningful goals as the companies operated in conservatorship and drew billions of dollars from the Treasury Department. Those measures will be redefined for FY2010, but for this year are reported as not achieved.

This report contains complete and reliable performance and financial data for FHFA. Any data limitations are noted with the discussion of the corresponding performance goal. Based on the agency's assessment of internal controls and compliance with OMB Circular A-123, I can provide reasonable assurance that the agency's risk management and internal control systems, taken as a whole, conform to the standards prescribed by the Government Accountability Office and the Federal Managers' Financial Integrity Act. The details of management assurances can be found in the "Management's Discussion and Analysis" section of the report. In FY 2009, FHFA received an unqualified audit opinion on its financial statements from the Government Accountability Office.

Priorities for FY2010

FHFA remains committed to the effective supervision of the regulated entities with the objective of promoting financially safe and sound operations and ensuring operations consistent with their housing finance mission, which includes supporting a stable and liquid mortgage market. In that context, I see three priorities for the regulated entities, and hence three supervisory priorities for FHFA.

First, as the country continues to work through the housing market collapse, I am looking to the Enterprises and the FHLBanks to provide ongoing support to the mortgage market, consistent with their mission and charters. For the Enterprises, this means continuing to provide a secondary market outlet for mortgages, including mortgages that meet the Enterprises' affordable housing goals. For the FHLBanks, this means making collateralized advances to member institutions and supporting affordable housing and community investment programs.

Second, the regulated entities must remediate identified weaknesses and further strengthen their operations and risk management practices. As financial institutions focusing on housing finance, they must address their direct and indirect exposure to serious mortgage delinquencies.

Third, as part of their overall housing finance mission, the regulated entities each have important roles to play in preventing avoidable foreclosures and providing programs that assist the housing market recovery. The Enterprises are implementing the loan modification and refinance programs under the Administration's Making Home Affordable programs. The FHLBanks are implementing troubled homeowner refinance assistance available through new authorities granted by FHFA's recent affordable housing program regulation.

Beyond these priorities, FHFA also looks forward to working with the Administration and Congress on important policy matters, including the future of the Enterprises and financial regulatory reform.

Conclusion

In FY2009, FHFA established itself as a new federal agency dedicated to its mission of supporting the nation's housing finance system through its oversight of the housing GSEs. I am proud of the tremendous response from our employees to the unprecedented challenges faced by the country and the entities we oversee, and to the operational challenges of standing up our new agency in the face of such market uncertainty. They represent the best in public service. On behalf of all my colleagues at FHFA, I particularly would like to recognize and thank former Director James B. Lockhart III, FHFA's first Director, who retired on August 31, 2009. Director Lockhart's leadership from the agency's first day set us on a course to be a proactive, accountable, performance-driven organization.



Edward J. DeMarco
Acting Director
November 16, 2009

Fiscal Year 2009 Performance and Accountability Report

Overview

The Federal Housing Finance Agency (FHFA) annually prepares and issues its Performance and Accountability Report (PAR) to describe and quantify its fiscal year (FY) performance relative to the goals and measures set forth in its annual performance plan. Publicly releasing this information promotes transparency in FHFA's operations and improves the public's understanding of FHFA's operations and accomplishments.

The 2009 PAR has four sections: Management's Discussion and Analysis, Performance Section, Financial Section, and the Appendix. The purpose and content of those four sections are summarized in the following table.

Section of Report	Section Purpose and Contents
Management's Discussion and Analysis	FHFA Mission Overview
	Description of the FHFA
	Description of Regulated Entities
	Performance Highlights
	Management Challenges
	FY 2009 Performance Summary
	FY 2009 Financial Summary
Performance Section	Managing and Measuring Performance
	Strategic Goal 1
	Strategic Goal 2
	Strategic Goal 3
	Resource Management Strategy
Financial Section	Message from the Chief Financial Officer
	Statement of Assurance from FHFA Director
	Report of Independent Auditors
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Management's Discussion and Analysis

FHFA's Mission

Provide effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.

FHFA's Values

Accountability

We foster responsibility on the part of individual employees and divisions through defined delegations of authority. We align our actions and resources with our mission and respond promptly and proactively to emerging risks. We adhere to a predictable risk-based supervision program. We use agency resources and authorities efficiently and effectively to achieve our mission and goals.

Responsiveness

We cooperate, collaborate, and communicate within the Federal Housing Finance Agency (FHFA) and with other government agencies, Congress, and the public. We respond promptly to external requests and regularly disseminate information about the housing industry and markets. We promptly address and clearly communicate issues, decisions, and conclusions to the regulated entities.

Independence

We are the independent regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Our evaluations of the housing-related regulated entities are unbiased and remain free from external influence.

Integrity

We adhere to the highest ethical and professional standards. We treat the regulated entities, the public, policymakers and other stakeholders fairly with impartiality and respect. We apply consistent treatment to and among the housing regulated entities and base our decisions on the merits of their current actions and conditions.

Professionalism

We maintain a highly skilled, dedicated, and diverse workforce. We promote equal opportunity and advancement on the basis of merit. We recognize employees who demonstrate competence and effectiveness in their decisions and actions and whose results serve the agency's mission and the public interest. We judge the regulated entities against defined industry standards through a disciplined examination approach.

Description of FHFA

The Housing and Economic Recovery Act of 2008 (HERA) established FHFA by merging the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB), and the Department of Housing and Urban Development's (HUD) mission group to oversee the financial safety and soundness and the housing mission of all the housing-related government-sponsored enterprises (GSEs), also referred to as the regulated entities. These include the Federal National

Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank (FHLBank) System, composed of 12 FHLBanks and the Office of Finance.

FHFA is a small government agency with a workforce that includes highly skilled economists, market analysts, examiners, subject matter experts, technology specialists, accountants, and attorneys. FHFA had a staff of 428 employees at the end of FY 2009. In FY 2010, the agency plans to add 52 employees.

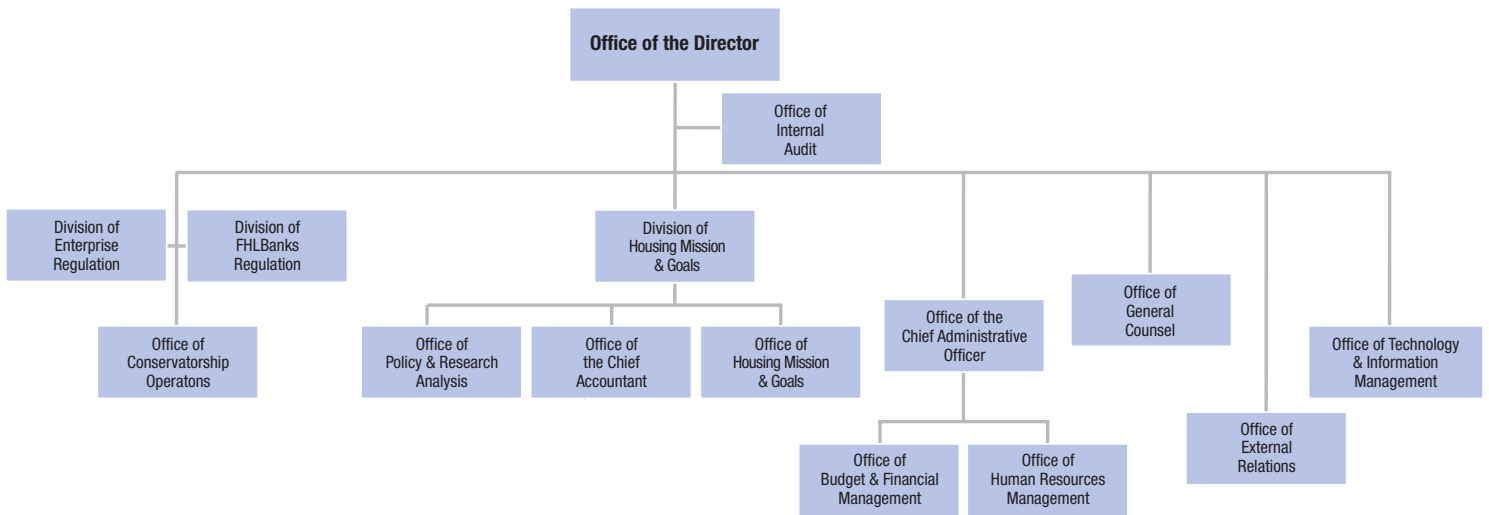
FHFA's Director sets the direction for the agency to achieve its mission. FHFA divisions and offices have specific responsibilities and work together to ensure effective execution of the agency's mission.

The **Division of Federal Home Loan Bank Regulation** is responsible for the supervision and examination of the FHLBanks and the Office of Finance. The division conducts annual on-site examinations, periodic visitations, and off-site monitoring. Other division responsibilities include supervisory policy and program development, regulatory analysis and developments, and economic research and analysis in support of FHLBank regulation.

The **Division of Enterprise Regulation** is responsible for the supervision and examination of Fannie Mae and Freddie Mac (The Enterprises). The division conducts annual on-site examinations and off-site monitoring. The division provides oversight and ensures coordination among all FHFA mission-critical supervisory functions, including programs for capital adequacy, compliance, examination, financial analysis, and quality assurance in support of the Enterprises.



FHFA employees attend an all hands meeting regarding the agency's progress and accomplishments.

Figure 1 • Organization Chart for FHFA

The **Division of Housing Mission and Goals** is composed of the following three offices, each with responsibilities that span all of the regulated entities:

The **Office of Housing Mission and Goals** is responsible for oversight of the housing mission and goals of the Enterprises and the oversight of the housing finance, community, and economic development mission of the FHLBanks.

The **Office of the Chief Accountant** develops safety and soundness guidance and policies related to accounting, auditing, and financial reporting and disclosure at the regulated entities. The office monitors the compliance of the regulated entities with such policies and also promotes the application of consistent accounting policies across the regulated entities.

The **Office of Policy Analysis and Research** conducts research and policy analysis to assess the short- and long-term effect of trends and issues in the activities of the regulated entities, housing finance, and financial regulation on the regulatory and supervisory functions of FHFA. The office also prepares data series and publications that inform the public about the housing finance system and changes in house prices and helps support development of FHFA regulatory policies.

The **Office of Conservatorship Operations** assists the FHFA Director, as conservator, in preserving and conserving Fannie Mae's and Freddie Mac's assets and property. The office ensures the Enterprises appropriately focus on their mission, including the stability, liquidity, and affordability of the housing market.

The **Office of the General Counsel** advises and supports the Director and all FHFA staff on legal matters related to the functions, activities, and operations of FHFA and the regulated entities, specifically providing support for supervision functions, promulgation of regulations, and enforcement actions.

The **Office of Internal Audit** reports directly to the Office of the Director and carries out certain audit functions for FHFA as delegated by the Director. Until FHFA has an Office of Inspector General, the Office of Internal Audit will address reports of violations of any law, rule or regulation; gross mismanagement; gross waste of funds; abuses of authority; or substantial and specific dangers to public safety or complaints regarding the programs and operations of the agency.

The **Office of External Relations** works with FHFA's external stakeholders to effectively communicate information about the agency, respond to public and congressional inquiries, and release pertinent information to the public.

The **Office of the Chief Administrative Officer** provides operational support and services and business solutions to FHFA offices. The office's staff members work in a variety of areas, including human resource management, budget and financial management, performance management, and facilities management.

The **Office of Technology and Information Management (OTIM)** is responsible for ensuring the integrity, confidentiality, and availability of FHFA's information systems and assets. The office maintains the information technology (IT) infrastructure, develops information systems, provides storage and management of the agency's information assets, provides support to FHFA employees on IT systems, manages Freedom of Information Act requests, and ensures information security.

To fulfill its mission, FHFA has available a full range of oversight and regulatory authorities to deal with the regulated entities. These authorities include full scope examinations and enforcement mechanisms, such as cease and desist orders, civil money penalties, removal authority, and independent litigation authority.

Description of Regulated Entities

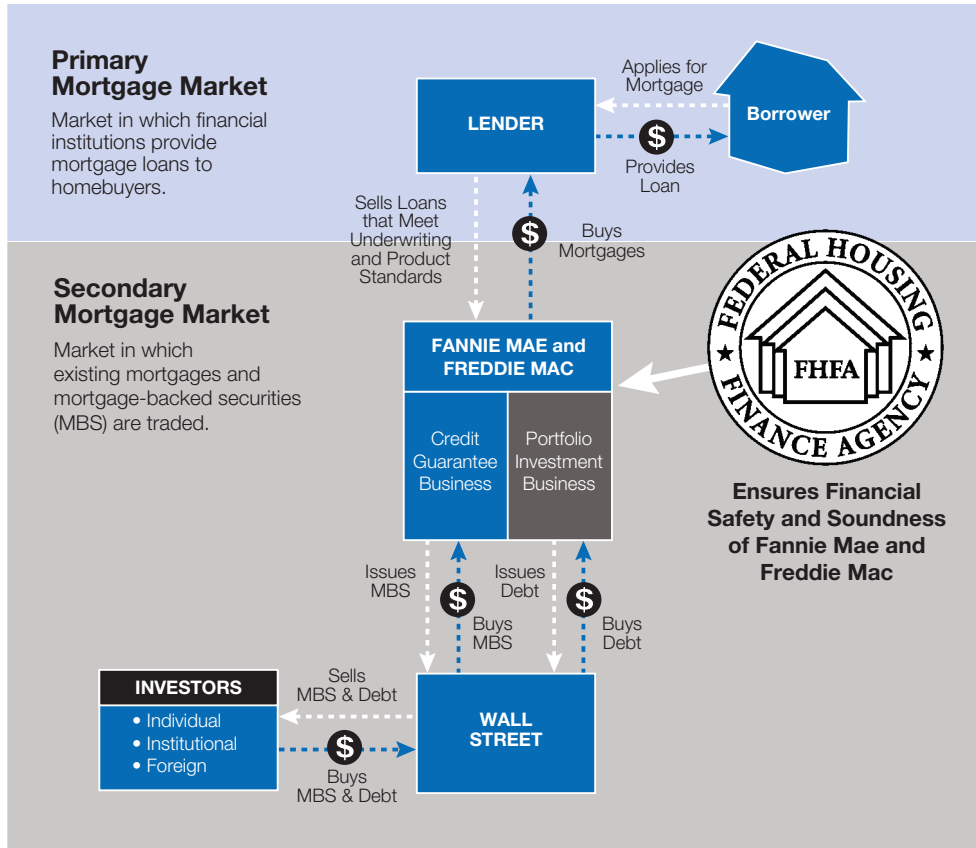
The Enterprises

The primary and secondary mortgage markets work together to finance homeownership opportunities. The secondary market provides liquidity to the primary market and helps establish mortgage interest rates.

In the primary mortgage market, financial institutions make mortgage loans directly to homebuyers. This process begins when the potential homeowner, or borrower, applies for a mortgage loan from a lender. The lender can be a savings bank, credit union, mortgage banking company, commercial bank, savings and loan, or state or local housing finance agency. Once the lender approves the application and the loan is processed, the mortgage lender provides the money to the borrower, who then applies the proceeds of the mortgage to the cost of the home. The lender in the primary market either holds the loan in its own portfolio or sells the loan into the secondary market.

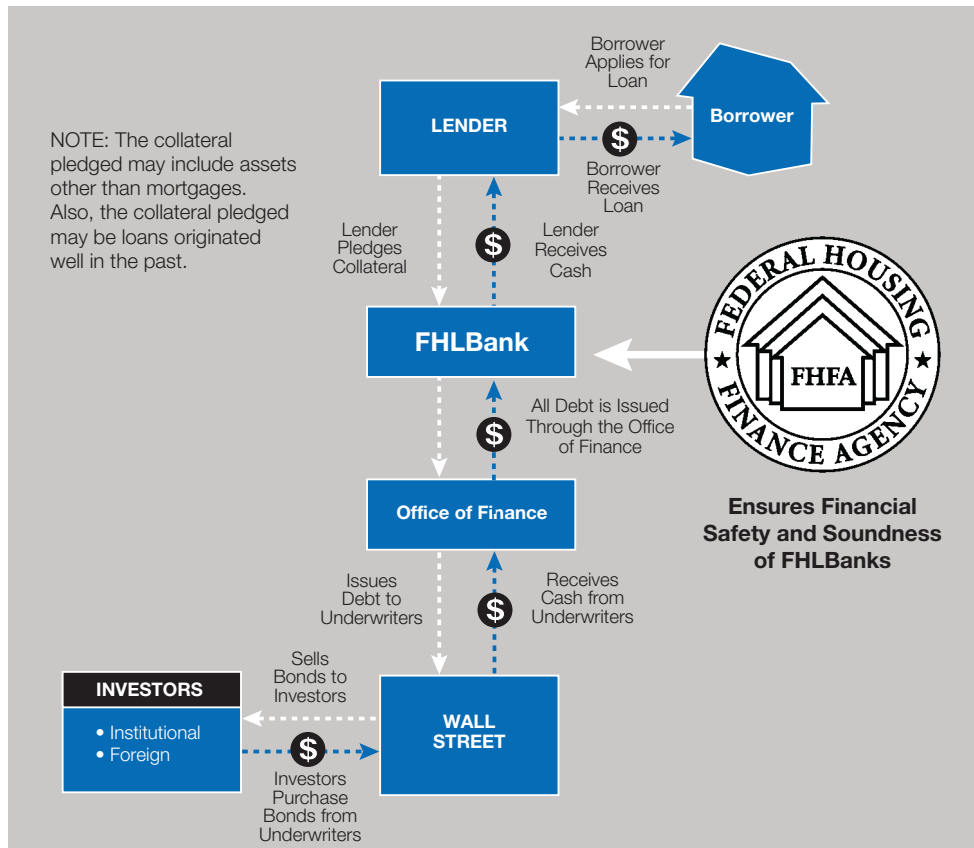
Congress established Fannie Mae and Freddie Mac (the Enterprises) to perform an important role in the nation's housing finance system: providing liquidity, stability, and affordability to the secondary mortgage market. In the secondary mortgage market, the Enterprises make funds readily accessible for

Figure 2 • FHFA's Oversight Role – Fannie Mae & Freddie Mac



banks, savings and loans, and mortgage companies that make loans in the primary mortgage market to finance housing. Fannie Mae and Freddie Mac are the largest buyers of mortgages in the secondary market. They hold the mortgages they purchase in their portfolios or package the loans into mortgage-backed securities (MBS). The Enterprises also buy other agency and private-label MBS (PLMBS) for their own portfolios. Lenders can use the cash raised by selling mortgages to the Enterprises to lend more so individuals and families who buy homes and investors who purchase single-family homes or apartment buildings and other multifamily dwellings will have a reliable, stable supply of mortgage money. Roughly half of the mortgages purchased by Fannie Mae and Freddie Mac finance dwelling units that are affordable to low- and moderate-income households. More than one-fourth are located in geographic areas designated as “underserved.”

MBS are traded in the secondary mortgage market. Because Fannie Mae and Freddie Mac package mortgages as MBS and guarantee timely payment of principal and interest on the underlying mortgages, investors who might not otherwise invest in mortgages enter the secondary mortgage market, which expands the pool of funds available for housing. This process makes the secondary mortgage market more liquid and helps lower the interest rates paid by homeowners and other mortgage borrowers.

Figure 3 • FHFA's Oversight Role – FHLBanks

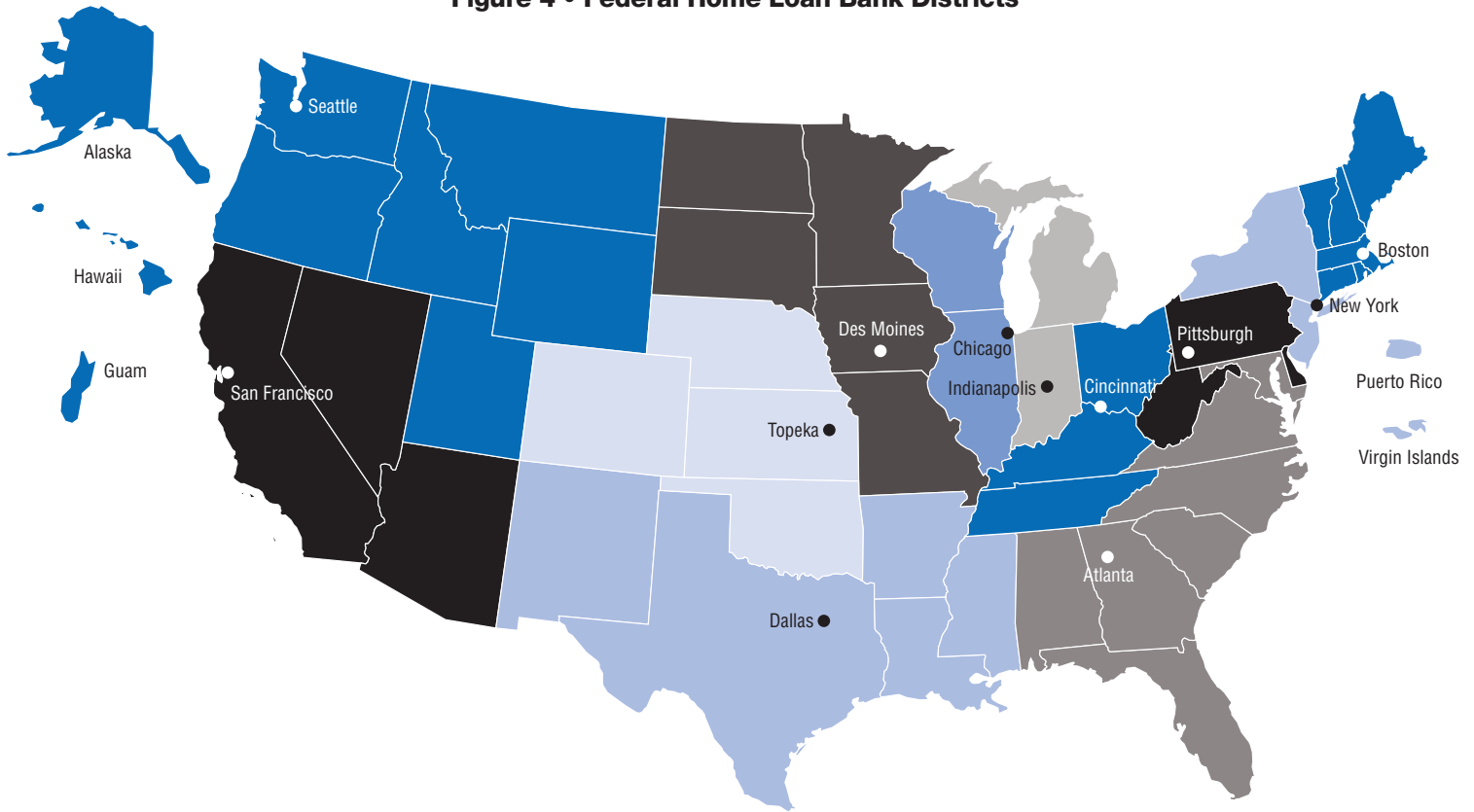
The Federal Home Loan Banks

The fundamental business of the FHLBanks is to provide a readily available, low-cost source of funds in a wide range of maturities to meet the liquidity demands of members. The FHLBanks are cooperatives, which means only members and former members own the capital stock in each FHLBank. Membership is limited to regulated depositories, insurance companies, and community development financial institutions engaged in residential housing finance. As a member-owned cooperative, each FHLBank conducts its credit and mortgage program businesses with its members or eligible housing associates.

The FHLBanks make loans, called advances, to their members and eligible housing associates on the security of mortgages and other collateral pledged by the borrowing member or housing associate. This serves the general public by increasing the availability of credit for residential mortgages and community investments and by making the mortgages and mortgage securities owned by members more liquid. Enhancing the liquidity of mortgages makes members more likely to invest in mortgages and MBS.

Advances are the largest category of assets of the FHLBanks. In addition, some FHLBanks provide members with a means of enhancing liquidity by purchasing or funding home mortgages through mortgage programs developed for their members. Under these programs, members are offered the opportunity to sell qualifying mortgages to, or fund them through, an FHLBank. Members can also

Figure 4 • Federal Home Loan Bank Districts



Atlanta	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia
Boston	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Chicago	Illinois, Wisconsin
Cincinnati	Kentucky, Ohio, Tennessee
Dallas	Arkansas, Louisiana, Mississippi, New Mexico, Texas
Des Moines	Iowa, Minnesota, Missouri, North Dakota, South Dakota
Indianapolis	Indiana, Michigan
New York	New Jersey, New York, Puerto Rico, Virgin Islands
Pittsburgh	Delaware, Pennsylvania, West Virginia
San Francisco	Arizona, California, Nevada
Seattle	Alaska, Guam, Hawaii, Idaho, Montana, Oregon, Utah, Washington, Wyoming
Topeka	Colorado, Kansas, Nebraska, Oklahoma

borrow from an FHLBank to fund low-income housing, helping the members satisfy their regulatory requirements under the Community Reinvestment Act. Finally, some FHLBanks offer their members a variety of services such as correspondent banking, which includes security safekeeping; wire transfers and settlements; cash management; letters of credit; and derivative intermediation.

The FHLBanks fund their assets and operations principally through the sale of debt instruments, known as consolidated obligations, to the public through the Office of Finance. Each FHLBank is jointly and severally liable with the other FHLBanks for all consolidated obligations issued. Consolidated obligations are not obligations of the United States, and the U.S. government does not guarantee them.

Performance Highlights

Establishing FHFA

At the beginning of FY 2009, former OFHEO and FHFBA employees were officially transferred to FHFA, less than 90 days after enactment of HERA. Since then, FHFA has worked to integrate the separate administrative and financial systems of the two predecessor agencies.

FHFA contracted with the Treasury Department's Bureau of the Public Debt. Administrative Resource Center to provide accounting services for the agency. The Bureau of the Public Debt is approved by the federal Office of Management and Budget (OMB) as a "Center of Excellence for Financial Management." A new accounting system, which went live on July 1, 2009, provides the agency with a cost-effective integrated system for its accounting, procurement, and travel activities. The project was completed within established timeframes and budget. Combining the financial accounting functions of the predecessor agencies was an important step toward completing the transition to an operationally unified agency.

The Office of Human Resource Management coordinated the programming and systems changes with the National Finance Center to achieve a transition from two separate systems into a unified payroll and processing system for FHFA. The integration was completed in July 2009, on schedule and under budget. With a unified FHFA personnel and payroll system, the agency can move to the next phase of full employee integration: the migration of employees into a combined compensation and benefits package.

OTIM worked to unify FHFA information technology infrastructure operations. The goal throughout the integration effort was to build and operate one IT infrastructure to support FHFA's mission effectively. Specifically, FHFA has

- *Implemented an integrated e-mail messaging system;*
- *Consolidated software licenses and services;*
- *Eliminated duplication of information systems and data sources;*
- *Established the FHFA.gov domain and developed and deployed a new FHFA.gov Web site;*
- *Established an internal employee communication site; and*
- *Unified internal customer service operations.*

Charting the Future

In its first year, FHFA published its first strategic plan, first human capital plan, and first combined *Performance and Accountability Report*. The combined PAR presented progress and accomplishments of FHFA, FHFB, and OFHEO for FY 2008.

The *FHFA Strategic Plan 2009–2014*, formally approved and adopted in July 2009, established the strategic goals and objectives of FHFA. For those goals to be achieved, it is imperative to restore the financial health of the Enterprises through the conservatorships, enhance the safety and soundness of the FHLBanks and the Enterprises, support efforts to return stability to domestic housing markets, and ensure that the regulated entities contribute to affordable housing and community and economic development.

The strategic plan recognizes Fannie Mae's and Freddie Mac's roles in the Making Home Affordable (MHA) program, which seeks to stabilize mortgage markets by combating preventable foreclosures. The strategic plan also reinforces the strong supervisory framework HERA created for the regulation and oversight of the regulated entities, which is crucial in enhancing the financial safety and soundness of their operations and in financing and otherwise supporting affordable housing and community development activities.

The *FHFA 2009–2011 Strategic Human Capital Plan* links human capital planning to FHFA's mission and strategic goals. The plan describes FHFA's current workforce and business challenges that will affect the management of human capital in the next few years. It also presents a program to ensure that FHFA has the staff needed to meet its performance goals and mission. The human capital plan is premised on the principle that successful human resources management is the foundation of the agency's ability to accomplish performance goals and achieve its mission.

Conducting Examinations and Targeted Supervisory Reviews

The Division of FHLBank Regulation's examination process emphasizes an ongoing supervisory approach involving both off- and on-site activities. Identifying excessive risk exposure through an evaluation of an FHLBank's condition and practices is the primary examination goal. FHFA accomplishes this by conducting risk-based examinations. The scope, depth, and focus of the examinations are based on the results of previous examinations, visitations, or other analyses. During FY 2009, FHFA examiners conducted on-site safety and soundness examinations at all 12 FHLBanks and the Office of Finance. The examination process was enhanced in 2009 to allow an expansion of on-site activities to conduct more rigorous analysis in areas of perceived risk. Significant examination results, known as "matters requiring attention" (MRAs), are reviewed by a committee of senior division staff before discussion with the FHLBanks' Board of Directors.

The Division of Enterprise Regulation (DER) focuses on the safety and soundness of Fannie Mae and Freddie Mac. To this end, FHFA conducted continuous supervision activities and targeted reviews of key areas such as financial performance, credit quality, operational risks, liquidity planning, interest rate risk, retained portfolios, and enterprise risk management. FHFA also strengthened its oversight of



FHFA staff meet to develop the 2009 Agency Strategic Plan in December 2008.

MRAs through ongoing dialogue with management of the Enterprises about corrective actions, additional management reporting for FHFA executives, and establishing an Enforcement Oversight Committee. FHFA will continue to review and revise its formal supervisory strategy for the Enterprises to ensure examinations and targeted reviews reflect a risk-focused approach.

Ensuring Continued Functioning of the Secondary Mortgage Market

Throughout FY 2009, FHFA acted as both conservator of the Enterprises and as the mission and safety and soundness regulator of all the regulated entities. In both capacities, FHFA worked to ensure the regulated entities continued to provide a stable and affordable source of liquidity for the primary mortgage market.

The Department of Treasury's financial support for the Enterprises served as a foundation for those efforts. In conjunction with the establishment of the conservatorships in September 2008, FHFA, acting as conservator, entered into agreements that committed the Treasury to acquire senior preferred stock in each Enterprise to ensure each maintained positive net worth. In February, Treasury doubled the size of these agreements to \$200 billion each. The financial support provided through those agreements, FHFA's suspension of all regulatory capital requirements following the conservatorships, and Treasury and the Federal Reserve's purchases of Enterprise debt and MBS enabled the Enterprises to carry out normal secondary mortgage market operations. Those operations included providing liquidity to banks, thrifts, and other mortgage lenders.

Enhancing Foreclosure Prevention Efforts

Throughout the past year, FHFA encouraged the Enterprises to lead foreclosure prevention initiatives to stabilize housing and financial markets. FHFA worked with the Administration, the Enterprises, and other industry participants on a plan to address the economic crisis and keep people in their homes.

FHFA worked with HOPE NOW, an alliance of mortgage market participants, and Treasury, the Federal Housing Administration (FHA), and the Enterprises to design and implement a comprehensive Streamlined Modification Program in November 2008. The streamlined program was designed to reduce preventable foreclosures by transitioning borrowers who were delinquent on their obligations into mortgages they could afford. FHFA also coordinated the actions of the Enterprises to suspend foreclosures of owner-occupied homes from November 26, 2008, until January 31, 2009, and encouraged the Enterprises to update their tenant eviction and foreclosure sale suspension plans.

In early 2009, FHFA helped develop the Administration's MHA program, which is expected to help at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. This program is a major step forward in reducing avoidable foreclosures and stabilizing the housing market. This program will work in tandem with an expanded and improved Hope for Homeowners Program. It builds on both the Federal Deposit Insurance Corporation's (FDIC's) modification initiative and the Streamlined Modification program.

The two principal elements of the MHA program comprise an important step toward achieving a recovery for housing markets and the entire economy.

1. **Home Affordable Refinance Program (HARP).** The Enterprises provide access to low-cost refinancing for loans they own or guarantee. This helps homeowners reduce their monthly payments and avoid foreclosure. It is designed for borrowers who are current in their payments and seek to refinance at a lower rate or into a safer mortgage but who have experienced difficulties because of declining home values and limited availability of mortgage insurance.
2. **Home Affordable Modification Program (HAMP).** This program establishes a national standard for loan modifications. Treasury shares a portion of the costs, which provides financial incentives to borrowers, lenders, and servicers. The Enterprises monitor servicer compliance with the plan's rules. The Enterprises bear the incentive costs of modifications for loans Fannie Mae or Freddie Mac own or guarantee.

FHFA took the lead in coordinating implementation of the MHA loan modification process by the regulated entities, including the coordination of the development of the net present value (NPV) model used to qualify loan modification recipients. The NPV model was a joint collaboration between the Enterprises, FHFA, FDIC, and Treasury. FHFA also oversaw and assisted the Enterprises in their respective roles as agents of the Treasury in implementing the program.

FHFA also actively promoted transparency regarding the results of the Enterprises' foreclosure prevention and refinance activities. In November 2008, FHFA began publishing a monthly *Foreclosure Prevention Report* that provides updates on the Enterprises' loan modification and other foreclosure prevention activities. In August 2009, FHFA began publishing a monthly *Refinance Report* that summarizes the Enterprises mortgage refinance activities, including HARP refinances. These reports together form the key elements of FHFA's monthly *Federal Property Managers Report* to Congress, which FHFA began producing in December 2008 as required by Section 110 of the Emergency Economic Stabilization Act of 2008.

Monitoring and Addressing the Challenges of PLMBS

As high levels of delinquencies triggered ratings downgrades of PLMBS and significant market illiquidity, these MBS presented significant financial challenges for Fannie Mae, Freddie Mac, and the FHLBanks.

Fannie Mae and Freddie Mac incurred significant accounting charges related to other than temporary impairment (OTTI) of residential PLMBS in 2008 and 2009. Through September 30, 2009, the Enterprises had taken a cumulative \$16.1 billion of credit-related losses on roughly \$160 billion of mostly subprime, Alt-A, and option ARM (adjustable-rate mortgage) PLMBS. Though the overall PLMBS market has slightly improved because of government programs in the third quarter of 2009, prices remain depressed at a weighted average of roughly 60 cents on the dollar mark-to-market value.

FHFA worked with the FHLBanks on the adoption of a common platform for accounting for PLMBS. By the end of FY2009, the common platform had contributed to greater standardization and coordination among the FHLBanks in valuing their PLMBS holdings and determining OTTI.

Exposure to OTTI varies considerably among the FHLBanks. This has affected their retained earnings and accumulated other comprehensive income. Preliminary data indicate the FHLBanks held \$51.3 billion in PLMBS as of September 30, 2009. These securities had a fair value of \$46.1 billion, or 90 cents on the dollar. Because of the deterioration in the market, the FHLBanks took total OTTI charges in FY 2009 of \$12.2 billion. Of that amount, \$2 billion was due to credit factors. A total of \$8.4 billion was due to noncredit factors, which are recorded as part of their balance sheet capital accounts but do not flow through their income statements.

Providing Accounting Guidance to the Regulated Entities



FHFA General Counsel Alfred Pollard speaks at Director James Lockhart's September farewell event.

In light of the changing regulatory landscape, FHFA's Office of the Chief Accountant shared preliminary accounting examination guidance on a range of accounting and auditing issues with the regulated entities. The guidance reflected structural and regulatory differences between the Enterprises and the FHLBanks. The new guidance, when finalized in October 2009, replaced previous accounting guidance applicable only to the Enterprises and supplemented regulations and other guidance applicable only to the FHLBanks.

Several significant events had occurred since the original accounting guidance and FHLBank regulations were issued. The HERA legislation was passed, which created FHFA and made certain Securities and Exchange Commission (SEC) regulations applicable to the regulated entities, and the Enterprises were placed into conservatorship.

The new guidance gives examiners criteria to assess risks posed by an entity's accounting, internal control over financial reporting, and audit functions. One of the primary goals of the new guidance is to promote consistency in implementation of generally accepted accounting principles (GAAP) to enhance transparency. This is achieved in part by

establishing the expectation that the regulated entities maintain complete and current accounting policies and procedures.

Another significant element of the new guidance articulates best practices around audit-related governance matters and internal controls. The guidance reinforces SEC, Public Company Accounting Oversight Board, and New York Stock Exchange requirements for audit committees. The updated guidance also reflects the different governance structures of the Enterprises as compared to the FHLBanks. For example, some audit committee independence requirements applicable to the Enterprises will not apply to the FHLBanks because of the cooperative ownership structure of the FHLBanks, which are subject to existing regulations covering the composition of their audit committees.

Another key element of the new guidance relates to external auditor independence at these systemically important institutions. The guidance sets out regular rotation as a best practice for each

regulated entity to promote audit independence. The guidance states that regulated entity audit committees should formally consider audit firm rotation after 10 years of audits by the same firm and every five years thereafter until there is a change in auditor. The new guidance also requires examiners to consider the tenure of audit firms in their assessments of auditor independence and related governance matters.

Fulfilling Requirements Established by HERA

During FY 2009, FHFA began a review of existing OFHEO and FHFB regulations as well as regulations required to be issued under HERA. As a result, FHFA issued final and interim final regulations either required by, or in response to, HERA provisions or which adopted, with appropriate revisions, OFHEO or FHFB regulations. The published final or interim final regulations are listed in Figure 5. For those regulations issued as proposed or interim final regulations, FHFA expects to issue final regulations in FY 2010 after considering public comment.

In addition to promulgating regulations, FHFA prepared and issued several reports required by HERA. On July 30, 2009, the agency published the first annual report on guarantee fees charged by the Enterprises for conventional single-family mortgages—loans the federal government does not insure or guarantee that finance properties with four or fewer residential units. The report, issued July 30, 2009, covered single-family fees for loans acquired by the Enterprises in 2007 and 2008. The sample of mortgages used to prepare that report represented 79 percent and 89 percent, respectively, of the unpaid principal balance of single-family mortgages the Enterprises acquired in 2007 and 2008.

Also on July 30, 2009, FHFA published a study on securitization of home mortgage loans purchased, or to be purchased, by the FHLBanks from member financial institutions under the acquired member assets programs. The study focused on the

- *Benefits and risks associated with FHLBank securitization;*
- *Potential effects on liquidity in the mortgage markets and broader credit markets;*
- *Abilities of FHLBanks to manage risk;*
- *Effects of risk management programs on existing activities of the FHLBanks; and*
- *Effects of risk management programs on joint and several liability of the FHLBanks and the cooperative structure of the FHLBank System*

On the basis of the findings of this study and the recent calls for regulatory reform, FHFA did not recommend permitting the FHLBanks to securitize mortgages.

Finally, on July 30, 2009, FHFA published two reports related to collateral securing advances at the FHLBanks. The first report, an annual report required by Section 1212 of HERA, analyzed collateral data as of December 31, 2008, by type and FHLBank district. On January 26, 2009, FHFA published this same report for data as of December 31, 2007. The second report, required by Section 1217 of HERA, studied the extent to which loans and securities used as collateral to support FHLBank advances were consistent with the interagency guidance issued by federal banking regulators on nontraditional mortgage products and subprime lending. The report noted that each FHLBank had adopted policies, procedures, and practices requiring that mortgage loans and securities used as collateral be consistent with interagency guidance as well as policies addressing antipredatory lending.

Figure 5 • Regulations Published in Response to HERA

Proposed	Golden Parachutes and Indemnification Payments <i>(74 FR 30975 Jun. 29, 2009, 12 CFR Part 1231)</i>
	Federal Home Loan Bank Membership for Community Development Financial Institutions <i>(74 FR 22848, May 15, 2009, 12 CFR Part 1263)</i>
	Executive Compensation (Regulated Entities) <i>(74 FR 26989, Jun. 5, 2009, 12 CFR Part 1230)</i>
	Reporting of Fraudulent Financial Instruments <i>(74 FR 28636, Jun. 17, 2009, 12 CFR Part 1233)</i>
	Board of Directors of FHLBank System Office of Finance <i>(74 FR 38564, Aug. 4, 2009, 12 CFR Part 1273 and 12 CFR Part 1274)</i>
Interim	Portfolio Holdings <i>(74 FR 5609, Jan. 20, 2009, 12 CFR Part 1252)</i>
	Prior Approval for Enterprise Products <i>(74 FR 31602, Jul. 2, 2009, 12 CFR Part 1253)</i>
	Federal Home Loan Bank Boards of Directors: Eligibility and Elections <i>(73 FR 55710, Sep. 26, 2009, 12 CFR Part 1261, Subpart A)</i>
	Affordable Housing Program Amendments: FHLBank Mortgage Refinancing Authority <i>(74 FR 38514, Aug. 4, 2009, 12 CFR part 1291)</i>
Final	Golden Parachute Payments <i>(74 FR 33907, Jul. 14, 2009, 12 CFR Part 1231)</i>
	Capital Classifications and Prompt Corrective Action <i>(74 FR 38508, Aug. 4, 2009, 12 CFR Part 1229)</i>
	2009 Enterprise Transition Affordable Housing Goals <i>(74 FR 39873, Aug. 10, 2009, 12 CFR Part 1282)</i>
Adopted with Appropriate Revisions, OFHEO or FHFB Regulations	Assessments <i>(73 FR 56712, Sep. 20, 2008, 12 CFR Part 1206)</i>
	Freedom of Information Act Implementation <i>(74 FR 2342, Jan. 15, 2009; 74 FR 18623, Feb. 17, 2009, 12 CFR Part 1202)</i>
	Flood Insurance <i>(74 FR 7304, Feb. 17, 2009, 12 CFR 1250)</i>
	Privacy Act Implementation <i>(74 FR 33907, Jul. 14, 2009, 12 CFR Part 1204)</i>

Establishing Affordable Housing Goals

FHFA analyzed detailed loan-level data on the 4.7 million single-family mortgages and 8,900 multifamily mortgages the Enterprises purchased to determine official goal performance for 2008. The agency also analyzed the feasibility of the 2008 housing goals, which were established long before the mortgage market collapse. FHFA determined that in light of market conditions, the 2008 housing goals and home purchase subgoals previously established in the regulation were not feasible and should be adjusted.

Under HERA, the housing goals established for the Enterprises by HUD for 2008 carried over to 2009. In FY 2009, FHFA began evaluating these existing housing goals. Restrictions on the availability of private mortgage insurance for borrowers with lower down payments; a surge in refinancing, particularly by higher income borrowers; the increasingly important role of FHA in the mortgage marketplace; and a slowdown in the multifamily market, among other factors, meant fewer loans in 2009 that qualified under housing goals. Consequently, FHFA proposed adjusting the overall 2009 Enterprise housing goals to lower levels. The final rule was published August 10, 2009.

Developing Duty to Serve Standard for the Enterprises

HERA amended the Safety and Soundness Act of 1992, establishing a duty for the Enterprises to serve three underserved markets—manufactured housing, affordable housing preservation, and rural areas—to increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing in those markets. Congress explicitly required the Enterprises to provide leadership in developing loan products and flexible underwriting guidelines to facilitate the secondary market for these underserved areas.

FHFA published an Advance Notice of Proposed Rulemaking to begin the process of establishing a manner for evaluating and rating whether and to what extent the Enterprises have complied with their duty to serve. The Enterprises must provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on housing for very low, low-, and moderate-income families with respect to the three underserved markets. FHFA issued the advance notice in August 2009, seeking the broadest possible public comment for its rulemaking. FHFA also sent representatives to Texas, Tennessee, and Wisconsin to learn more about manufactured housing needs. FHFA will report annually to Congress on what the Enterprises have done pursuant to their duty to serve.

Reviewing Executive Compensation at the Regulated Entities

Under HERA, the FHFA Director has the power to approve, disapprove, or modify the executive compensation of the Enterprises and the FHLBanks. The FHFA Director has authority to withhold the compensation of an executive officer during a review for “reasonableness and comparability.” It also grants the Director authority to prohibit or limit any golden parachute or indemnification payment.

On January 29, 2009, FHFA published a Golden Parachute Payments final rule that sets forth factors for the FHFA Director's consideration in limiting golden parachute payments to entity-affiliated parties in connection with the Enterprises and the FHLBanks. On June 29, 2009, FHFA published a Golden Parachute and Indemnification Payments Proposed Rule. The proposal amended the Golden

Parachute Payments Final Rule to address in more detail prohibited and permissible golden parachute payments. In addition, on June 5, 2009, FHFA published an Executive Compensation Proposed Rule. The proposed regulation sets forth requirements and processes with respect to compensation provided to executive officers by the Enterprises, the FHLBanks, and the Office of Finance, consistent with FHFA's safety and soundness responsibilities under HERA.

Working with the U.S. Treasury, FHFA designed a forward-looking incentive-based retention plan for the Enterprises. The plan focuses on retention rather than past performance. The retention plan is designed to

- *Retain key officers at a time of increased personnel demands;*
- *Preserve critical institutional knowledge; and*
- *Maintain optimal performance levels until capital levels are restored and credit losses are returned to a normal state.*

As conservator, FHFA did not allow bonuses for 2008 in light of the performance of the two Enterprises.

Management Challenges

The Future of the Secondary Mortgage Market

Conservatorship is not a long-term solution to financial distress at the Enterprises. The Administration, Government Accountability Office (GAO), trade associations, academics, and others have identified a variety of approaches related to the future structure and functions of the Enterprises or their successors. The Administration has announced that it will propose a plan for the long-term future of the Enterprises in February 2010. FHFA personnel are participating in internal and multiagency efforts to review and evaluate the strengths, weaknesses, and risks of the various options.

FHFA's experience with, and understanding of, secondary mortgage markets and institutions will be valuable to Congress and the Administration as they consider restructuring housing finance and financial regulation and address the secondary mortgage market and the role of the Enterprises. Critical decisions have to be made about the future of the primary mortgage market and the FHLBanks and the appropriate role of the secondary mortgage market, including the roles of government regulation and programs, and what guiding principles will shape the future of the secondary mortgage market.

Though much of the debate will focus on the Enterprises, FHFA expects the discussion to include the future of the FHLBanks. The FHLBanks played a critical role in providing financing to large and small member financial institutions during the second half of 2007, 2008, and the first part of 2009. The FHLBanks' residential mortgage portfolios are small compared to those of the Enterprises and have suffered little in the way of delinquencies or credit losses. FHFA is prepared to discuss the role of the FHLBanks in sustaining the mortgage market.

If Congress restructures the secondary mortgage markets or secondary market institutions, maintaining investor confidence and liquidity in existing and new mortgage products and markets and ensuring

the safety and soundness of both old and new institutions will be the most significant challenges. Beyond those challenges are broader issues, such as retaining key employees, identifying valuable elements of the existing Enterprises, and determining the need for certain systems and processes. To prepare for future policy decisions, FHFA is closely monitoring markets and holding discussions with various stakeholders.

Mortgage Delinquencies and Defaults

Rapidly rising levels of serious delinquencies and defaults, further aggravated by high levels of unemployment and severe declines in home prices, continue to stress the Enterprises. As of June 30, 2009, Enterprise serious delinquencies had increased nearly 200 percent year-over-year to 2.89 percent for Freddie Mac and 3.94 percent for Fannie Mae. Real estate owned (REO) acquisitions for the first three quarters of FY 2009 at Fannie Mae were 57,469, an approximate 30 percent increase year-over-year. Freddie Mac had 35,987 REO acquisitions, approximately 60 percent higher than the year before.

To mitigate the impact of continued serious delinquencies and defaults, the Enterprises expanded loan modification efforts and took leadership roles in the MHA program. The FHLBanks that participate in mortgage purchase programs developed borrower assistance programs that enhance the foreclosure prevention efforts for mortgage loans owned by the FHLBanks.

The Enterprises are recording historic levels of modifications and refinances. For borrowers unable to continue homeownership, the Enterprises offer foreclosure alternatives, including short sales, deeds in lieu of foreclosure, and REO rental programs. The impact of the HAMP and HARP elements remains uncertain as unemployment and house prices continue to deteriorate, interest rates rise from historic lows, other initiatives are set to expire, and operational difficulties in implementing foreclosure prevention programs arise.

Operational Challenges Facing the Enterprises

FHFA placed both Enterprises into conservatorship in September 2008 because deteriorating market conditions threatened the companies' ability to fulfill their mission. The Enterprises continue to be challenged by operational constraints both internally and by counterparties. To handle high numbers of loan modifications, loan servicers are making significant changes in their operational systems. In addition, servicers are increasing personnel to meet the intensive labor demands needed to manage and reduce foreclosures. The Enterprises are working with the government and servicers to accelerate loan modifications and refinancing, but they also must improve systems within their own operations and coordinate changes with servicers.

In 2008 Treasury established three finance facilities (GSE Credit Facility, MBS Purchase Program, and Senior Preferred Stock Purchase Agreement) to support the ongoing business operations of the Enterprises and meet conservatorship objectives. These facilities support the Enterprises' capital and liquidity to provide confidence to investors in the Enterprises' debt and MBS. Some of these facilities expire at the end of this year, so the Enterprises and FHFA are working with Treasury to ensure investor confidence is maintained through appropriate government support coupled with strengthened liquidity and asset liability management within the Enterprises.

Continuing Weaknesses in PLMBS Quality

PLMBS illiquidity and extremely poor collateral performance have challenged investors, including the Enterprises and the FHLBanks, in bonds originally rated triple-A. Credit and pricing weaknesses have demonstrated the need for resources to manage assets backed by riskier collateral and to properly account for current performance and the potential for future disruption to contractual cash flows. The regulated entities, like many other investors, have reallocated staff to assist with loss mitigation efforts on these bonds.

Throughout FY 2009, and likely continuing in FY 2010, earnings have been affected at the Enterprises and some FHLBanks by OTTI of certain securities. For the Enterprises, the actual and expected PLMBS and guarantee fee losses resulted in Department of the Treasury purchases of senior preferred stock. Impairments also have prompted certain FHLBanks to reduce or eliminate dividends and curtail or cease the repurchase or redemption of FHLBank stock.

Housing Goals for 2010

HERA for the first time added affordable housing and mission enforcement to the responsibilities of the safety and soundness regulator. As a result, enforcement of the affordable housing goals established for the Enterprises by Congress, once HUD's responsibility, is now up to FHFA. FHFA must ensure that the Enterprises meet their critical responsibility of making it possible for low- and moderate-income persons and underserved areas to have access to affordable mortgage loans while also ensuring that more prudent lending standards are restored.

HERA requires, beginning in 2010, a wholesale restructuring of the affordable housing goals. The Enterprises will have four single-family goals and one multifamily special affordable goal. For single-family purchase money mortgages, there will be goals for households in two income categories: low-income (income no greater than 80 percent of area median income) and very low income (income no greater than 50 percent of area median income). There will be a goal for refinanced mortgages for low-income families. In the multifamily area, there will be a separate special affordable (low-income) housing goal. FHFA must also finalize standards for the evaluation of the Enterprises' duty to serve certain underserved markets.

Beginning in 2011, HERA also requires FHFA to establish affordable housing goals for the FHLBanks for the first time. The affordable housing goals for the FHLBanks must be consistent with those for the Enterprises and take into consideration the unique mission and ownership structure of the FHLBanks. Prior to the passage of HERA, the FHLBanks principally supported the provision of affordable housing for low- and moderate-income households through their affordable housing programs.

HERA established a two-year transition period and mandated that FHFA establish interim target affordable housing goals for the FHLBanks during calendar years 2009 and 2010. FHFA will soon propose interim target goals consistent with the low- and moderate-income housing goals and the underserved area housing goal applied to the Enterprises' mortgage purchase activities in 2009 and prior years.

An Economic Capital Model for the Future

FHFA is pursuing the development of a new economic capital model to determine the risk-based capital requirement for the Enterprises. The model would address market, credit, and operational risks

as before, but would be different from the prior OFHEO approach. In particular, it would incorporate substantially more stress test scenarios than the previous model did. It could also include a countercyclical adjustment to the credit risk component, designed to require a build-up of capital during an expansion or housing boom well prior to a recession or housing crisis when the capital would be needed to absorb losses.

FHFA Leadership

On August 31, 2009, FHFA Director James B. Lockhart III resigned, and FHFA's Chief Operating Officer and Senior Deputy Director for Housing Mission and Goals Edward DeMarco became Acting Director of the agency. Over the past year, DeMarco played an integral role in setting up FHFA, so the President's appointment of DeMarco as Acting Director should provide a measure of stability to the agency. However, the agency continues to face uncertainty about selection of a presidentially appointed and Senate-confirmed Director, the future structure of the Enterprises, the future form of regulation for the Enterprises and the FHLBanks, and the role of FHFA following decisions on the future structure of secondary mortgage markets.

In addition, HERA calls for additional changes, including establishment of an Office of the Inspector General (OIG). FHFA will not have an inspector general, however, until one is approved by the President and confirmed by the Senate. Once an inspector general is appointed by the President and confirmed by the Senate, the agency will need to establish an OIG and provide appropriate staff and infrastructure to support it.



Acting Director Edward DeMarco addresses FHFA staff at an all hands meeting.

FY 2009 Performance Summary

Strategic Planning at FHFA

FHFA sets long-term and annual goals and monitors progress throughout the year to produce results using strategic and performance planning. The second section of this report describes in greater detail FHFA's results and efforts to achieve its FY 2009 performance goals.

FHFA's 2009 Annual Performance Plan was developed and released in December 2008 and consists of a combination of OFHEO and FHFB strategic goals and performance measures. For FY 2009, FHFA set 17 annual performance goals to reach its strategic goals, 5 annual performance goals to support its resource management strategy, and a total of 60 performance measures. After the release of the 2009 Annual Performance Plan, FHFA revised its performance measures to reflect the new administration's policies. As a result, FHFA added one measure and deleted five measures. This report shows the 61 measures, noting the five that are no longer applicable. This section describes agency performance based on FHFA's FY 2009 Annual Performance Plan, which outlined the means and strategies to achieve the annual performance goals and related measures for the past year.

While FHFA analyzed the allocation of resources, the merging of two accounting systems prevented the agency from tracking FY 2009 obligations by strategic goal. Beginning in FY 2010, FHFA will track resource allocations by strategic goals developed in FHFA's FY 2010 strategic plan, which was published in the last quarter of FY 2009.

FHFA's Strategic Goals

To achieve FHFA's mission, the agency established three strategic goals:

- 1. Enhance supervision to ensure that Fannie Mae, Freddie Mac, and the FHLBanks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.**
- 2. Promote homeownership and affordable housing and support an efficient secondary mortgage market.**
- 3. Through conservatorship, preserve and conserve the assets and property of Fannie Mae and Freddie Mac (the Enterprises) and enhance their ability to fulfill their mission.**

FHFA also has set a resource management strategy to manage effectively FHFA's human capital and resources.

FHFA Met or Exceeded Most of Its Performance Measures

FHFA reported on 61 performance measures in its FY 2009 Performance Plan. The agency exceeded, achieved, or substantially achieved 66 percent of the performance measures in the plan. The performance section outlines in detail the agency's performance goals for each strategic goal and FHFA's accomplishments related to each performance goal and its associated performance measures. Performance goals are counted as "achieved" when targets for all performance measures have been met. "Substantially achieved" indicates that at least one performance measure has not been achieved, although a substantial majority of the measures related to the performance goal were met. In FY 2009, FHFA achieved 63 percent, substantially achieved three percent, and did not achieve 26 percent of its performance measures. Eight percent of the performance measures were not applicable.

FY 2009 was a year of nearly unprecedented disruption in housing and financial markets. In response, the agency had to allocate resources to the conservatorships and to housing stabilization initiatives that it had not envisioned when it developed the FY 2009 Performance Plan was developed. In cases in which FHFA did not achieve performance measures in FY 2009, the reasons stemmed principally from turbulent housing and financial market conditions and challenges encountered in integrating the new agency.

FHFA identified 12 of the 61 FY 2009 performance measures as key performance indicators critical to its achievement of its strategic goals and objectives. Those key performance indicators represent each of the agency's three strategic goals and its resource management strategy and represent the highest priority measures for the agency. The following table summarizes FHFA's achievement of key performance indicators.

Key Performance Indicators for FY 2009

Strategic Goal	Performance Goal	Key Performance Indicator
<p>STRATEGIC GOAL 1</p> <p>Enhance supervision to ensure that Fannie Mae, Freddie Mac, and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.</p>	<p>PERFORMANCE GOAL 1.1</p> <p>Fannie Mae and Freddie Mac (the Enterprises) comply with safety and soundness standards.</p>	<p>PERFORMANCE MEASURE 1.1.1</p> <p>The percentage of Enterprises with a composite GSE enterprise risk safety and soundness rating of “Limited Concerns” or better.</p> <p>Not Achieved Both Enterprises were rated “Critical Concerns” and were in conservatorship.</p> <hr/> <p>PERFORMANCE MEASURE 1.1.2</p> <p>For both Enterprises, the percentage of GSE enterprise risk categories (governance, solvency, earnings, market, credit, and operational risk) with a safety and soundness rating of “Limited Concerns” or better (1 or 2).</p> <p>Not Achieved Ratings for the Enterprises were “Critical Concerns” for earnings, credit risk, and market risk and “Significant Concerns” for governance and operational risk. In conservatorship, the rating for capital was suspended.</p>
	<p>PERFORMANCE GOAL 1.</p> <p>The FHLBanks comply with safety and soundness standards.</p>	<p>PERFORMANCE MEASURE 1.2.1</p> <p>Percentage of FHLBanks with a composite rating of “1” or “2”.</p> <p>Not Achieved Sixty-two percent of the FHLBanks (and the Office of Finance) had a composite safety and soundness rating of “1” or “2” at the end of the fiscal year. Heightened concerns about credit risk and governance associated with private-label MBS holdings contributed to the decline in ratings.</p>
	<p>PERFORMANCE GOAL 1.4</p> <p>The FHLBanks are adequately capitalized.</p>	<p>PERFORMANCE MEASURE 1.4.1</p> <p>The FHLBanks meet FHFA’s determination of capital adequacy.</p> <p>Substantially Achieved FHLBanks met all capital requirements at year-end. One FHLBank, failed to meet the risk-based capital requirement for part of the year.</p>

Strategic Goal	Performance Goal	Key Performance Indicator
<p>STRATEGIC GOAL 1</p> <p>Enhance supervision to ensure that Fannie Mae, Freddie Mac, and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.</p>	<p>PERFORMANCE GOAL 1.5</p> <p>Fannie Mae and Freddie Mac comply with applicable laws, regulations, directives, and agreements, including executive compensation, corporate responsibility, and disclosure.</p>	<p>PERFORMANCE MEASURE 1.5.1</p> <p>Any identified instances of noncompliance with laws and regulations are resolved to FHFA's satisfaction.</p> <p>Achieved Enterprises resolved, or are on schedule to resolve, outstanding supervisory issues arising from laws, regulations, directives, and agreements.</p>
	<p>PERFORMANCE GOAL 1.6</p> <p>The FHLBanks comply with applicable laws, regulations, directives, and agreements, including those regarding executive compensation, corporate responsibility, and disclosure.</p>	<p>PERFORMANCE MEASURE 1.6.3</p> <p>Establish a matters requiring attention-like measure for tracking follow-up recommendations from annual exams.</p> <p>Achieved An MRA tracking tool was developed in 2009 and is being used for FHLBank examinations that commenced in 2009. Tracking tools for each FHLBank were backfilled with outstanding 2008 MRAs to log and document remediation efforts in a consistent manner.</p>
<p>STRATEGIC GOAL 2</p> <p>Promote homeownership and affordable housing and support an efficient secondary mortgage market.</p>	<p>PERFORMANCE GOAL 2.1</p> <p>Develop proposed and final regulations to implement statutory changes in Fannie Mae and Freddie Mac affordable housing goals effective January 1, 2010, while enforcing existing goals.</p>	<p>PERFORMANCE MEASURE 2.1.4</p> <p>Enforce Fannie Mae and Freddie Mac 2009 affordable housing goals.</p> <p>Achieved Met monthly with each Enterprise to track progress in meeting housing goals.</p>
	<p>PERFORMANCE GOAL 2.2</p> <p>The FHLBanks foster the development of affordable owner-occupied and rental housing for eligible very low-, low-, and moderate-income households.</p>	<p>PERFORMANCE MEASURE 2.2.2</p> <p>The FHLBanks address principal affordable housing program examination findings to FHFA's satisfaction prior to the next examination.</p> <p>Achieved Conducted all scheduled affordable housing program exams and visitations, assessed status of principal affordable housing program examination findings from prior exam, and obtained management commitment to correct findings from 2009 examinations.</p>

Strategic Goal	Performance Goal	Key Performance Indicator
<p>STRATEGIC GOAL 2</p> <p>Promote homeownership and affordable housing and support an efficient secondary mortgage market.</p>	<p>PERFORMANCE GOAL 2.5</p> <p>Cooperate with other federal agencies on mortgage markets and the nation's housing finance system and regulatory issues.</p>	<p>PERFORMANCE MEASURE 2.5.1</p> <p>Respond to requests from other Federal agencies for information about housing finance markets and the Enterprises.</p> <p>Achieved</p> <p>Thirty-day standard met on requests related to mortgage market conditions, debt issuance, Making Home Affordable, and Housing Finance Agency assistance.</p>
<p>STRATEGIC GOAL 3</p> <p>Through conservatorship, FHFA will preserve and conserve the assets and property of Fannie Mae and Freddie Mac and enhance their ability to fulfill their mission.</p>	<p>PERFORMANCE GOAL 3.1</p> <p>Preserve and conserve each Enterprise's assets and property.</p>	<p>PERFORMANCE MEASURE 3.1.1</p> <p>Financial condition of each enterprise remains liquid and they maintain positive GAAP net worth including Senior Preferred Stock.</p> <p>Achieved</p> <p>The Treasury Preferred Stock Agreement continues to support the Enterprises positive net worth and sufficient capacity remains.</p>
	<p>PERFORMANCE GOAL 3.2</p> <p>Continue to delegate appropriate authorities to each Enterprise's management to move forward with the business operations.</p>	<p>PERFORMANCE MEASURE 3.2.2</p> <p>Establish new Boards of Directors at each Enterprise.</p> <p>Achieved</p> <p>Both Enterprises reconstituted their Boards of Directors in December, 2008.</p>
<p>RESOURCE MANAGEMENT STRATEGY</p> <p>Manage effectively FHFA's human capital and resources to support our mission.</p>	<p>PERFORMANCE GOAL 4.1</p> <p>Maintain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the goals of the agency.</p>	<p>PERFORMANCE MEASURE 4.1.3</p> <p>Percentage of vacancies filled within Office of Personnel Management's 45-day time-to-hire standard.</p> <p>Achieved</p> <p>FHFA met the 45-day time-to-hire standard in 73 percent of FY2009 hires.</p>

FY 2009 Financial Summary

Year of Transition

HERA abolished FHFB and OFHEO effective at the end of a one-year period beginning with the signing of the legislation, on July 30, 2008. FHFB and OFHEO existed until then solely for the purpose of winding up their affairs. From a financial standpoint, FHFA changed from three Treasury funds to one, from two accounting systems to one, and from two payroll systems to one, effective July 2009.

Fiscal Year 2009 Financial Results

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

FHFA calculates the assessments for each Enterprise by determining a percentage ratio of each one's assets and off-balance-sheet obligations to the total of both Enterprises. FHFA calculates the assessments for each of the 12 FHLBanks by determining each Bank's share of minimum required regulatory capital as a percentage of the total minimum capital of all the FHLBanks. Assessments are paid semiannually on October 1 and April 1.

In FY 2009, FHFA's operating budget was \$120.8 million. During FY 2009, FHFA recovered \$6 million in unspent prior year obligations and had a \$900,000 reduction in the costs of reimbursable agreements from the legacy agencies. Total budget resources were \$125.9 million as a result. FHFA obligated all but \$9.7 million of that amount. The \$9.7 million unobligated amount included \$3 million for the working capital fund.

Net cost represents the gross cost incurred less any revenue earned from activities. For FY 2009, net cost of FHFA operations was \$7.1 million. Gross costs include expenses paid and depreciation expense for the year but exclude money paid for capitalized assets. Gross costs also include year-end accruals and unfunded expenses for retirement plans, health benefits, and life insurance paid by the Office of Personnel Management (OPM) for FHFA. Earned revenue consists of assessment, investment, reimbursable, and other miscellaneous revenues.

The agency's highest cost outlay was for payroll expenses. Funded payroll expenses were \$77.4 million for FY 2009. This included the full-year cost of 414 full-time equivalents. During FY 2009, FHFA focused on hiring and retaining staff to ensure effective oversight of the regulated entities.

Unqualified Audit Opinion for Fiscal Year 2009

For FY 2009, FHFA received an unqualified audit opinion on its financial statements. The auditor noted no material weaknesses in internal controls and cited no instances of noncompliance with laws and regulations.

Internal Controls

Management Assurances

During FY 2009, FHFA adhered to the internal control requirements of the Federal Managers Financial Integrity Act of 1982 (FMFIA) and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls met quarterly to oversee internal controls and provide recommendations to the Director on the effectiveness of FHFA's internal controls.

In 2009, the executive committee comprised the Senior Deputy Director/Chief Operating Officer who served as the chairman, the Chief Administrative Officer who served as the Vice-Chairman, the Chief Information Officer, the Chief Financial Officer, the Deputy Director for Enterprise Regulation, the Deputy Director for FHLBank Regulation, the Performance Improvement Officer, the General Counsel, and the Associate Director, Office of Supervision Infrastructure. The Chairman and Vice-Chairman invited other FHFA executives when appropriate. The executive committee also established senior assessment teams to review specific areas when needed.

During FY 2009, pursuant to its obligations under OMB Circular A-123, FHFA monitored and assessed the following three areas:

Reliability over financial reporting.

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

Compliance with laws and regulations.

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



Deputy Director of Enterprise Regulation Chris Dickerson meets with management planning staff.

Effectiveness and efficiency of operations.

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

The Executive Committee on Internal Controls reviewed documentation from all three areas. In compliance with the FMFIA requirements, the Director, on the basis of a recommendation from the executive committee, issued an unqualified opinion on internal controls over financial reporting as of September 30, 2009. This assurance can be found in the Financial Section of this report and meets the FMFIA reporting requirement for internal controls.

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

Federal Information Security Management Act

Title III of the Electronic Government Act of 2002, titled the Federal Information Security Management Act (FISMA), requires all federal agencies to develop and implement an agencywide information security program. The program provides the framework to protect the government's information, operations, and assets. FHFA annually reviews the agency's information security program through its internal audit function and reports the results to OMB. The FY 2009 FISMA report is currently in progress.

Significant information security program activities completed during FY 2009 included the development and issuance of the Agency's Breach Notification Policy and Plan for reporting personally identifiable information security incidents. FHFA also published a comprehensive Information

Technology Security Policy Handbook in FY 2009. The agency has begun putting procedures from the handbook in place and will continue this effort into FY 2010. FHFA also addressed security-related weaknesses for systems noted in the prior year OFHEO and FHFB FISMA reviews and completed a review to validate and document system configurations.

FHFA maintained security certification and accreditation on 100 percent of all major systems in production. During the year, FHFA expanded and improved security awareness training, providing a required automated training program to all FHFA employees and contractors. FHFA also upgraded its Security Log Management System to monitor production servers and network device logs and security events. In addition, FHFA implemented comprehensive scanning of production systems on a monthly basis to identify and correct system vulnerabilities as part of a risk management approach to manage IT assets.

Erroneous Payments

The Improper Payments Information Act of 2002 requires that agencies (1) review activities susceptible to significant erroneous payments (2) estimate the amount of annual erroneous payments (3) implement a plan to reduce erroneous payments and (4) report the estimated amount of erroneous payments and the progress to reduce them. The Act defines significant erroneous payments as the greater of 2.5 percent of program activities or \$10 million.

FHFA has implemented and maintains internal control procedures that ensure disbursement of federal funds for valid obligations. No erroneous payments were issued by FHFA in FY 2009 that met the Act's thresholds.

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 2009, the dollar amount subject to prompt payment was \$28.3 million. The amount of interest penalty paid in FY 2009 was \$482 or 0.0017 percent of the total dollars disbursed.

Financial Statement Requirements

FHFA prepares financial statements and submits those statements for annual audit. FHFA has prepared principal financial statements to report the financial position and results of its operations, pursuant to the requirements of 31 U.S.C. 3515(b). FHFA prepared the statements from the books and records of FHFA in accordance with GAAP for federal entities and the formats prescribed by OMB. The statements are also used to monitor and control budget resources that are prepared from the same books and records.

Performance Section

Managing and Measuring Performance

Figure 6 outlines the relationship between FHFA's performance-related documents and performance management practices. FHFA's strategic plan presents the agency's long-term strategic goals. Each year, FHFA develops outcome-based performance goals that lead to the accomplishment of the strategic goals. For FY 2009, there were a total of 22 performance goals: 17 related to strategic goals and 5 related to the agency's performance management strategy. For FY 2009, there were a total of 61 performance measures. Performance measures provide an indication of the level of achievement of the larger performance goal. This hierarchy of goals and measures is intended to ensure that FHFA devotes its resources to achieve its mission in practical and measurable ways (see Figure 7).

Figure 6 • FHFA's Performance Management Cycle

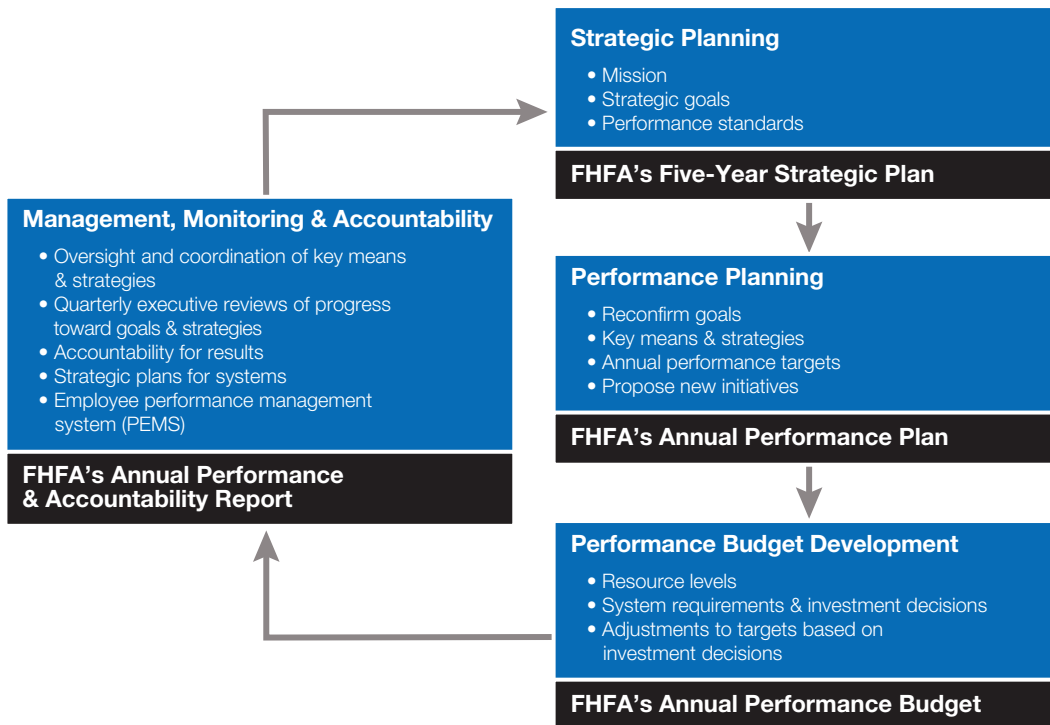


Figure 7 • FHFA's Goal Hierarchy

Performance measures are connected to strategic and performance goals through a numbering system. The first digit of each performance measure number represents the strategic goal that it supports, the second digit represents the performance goal, and the third digit is the performance measure number related to that performance goal. For example, Performance Measure 1.2.3 supports Strategic Goal 1 and Performance Goal 1.2, and is the third performance measure under that performance goal.

The FHFA annual performance budget describes how FHFA achieves its goals and the costs, systems, and initiatives associated with them. FHFA primarily accomplishes its mission by

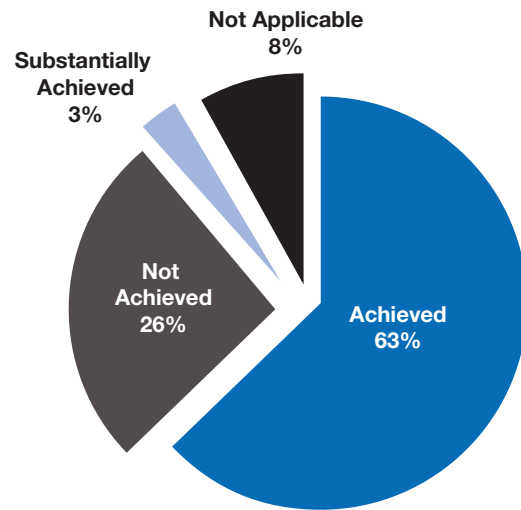
- *Conducting examinations of the regulated entities;*
- *Monitoring their progress in completing their remediation plans;*
- *Assessing their capital adequacy;*
- *Setting and enforcing affordable housing goals;*
- *Monitoring credit and financial market conditions; and*
- *Conducting research and analysis about the regulated entities and the housing markets.*

In addition, in FY 2009, FHFA served as conservator for the Enterprises and helped to design and support public programs intended to reduce preventable foreclosures and contribute to stability in housing and financial markets.

During FY 2009, FHFA executives reported their progress achieving the performance measures they were accountable for and then met with the Director to review status and accomplishments each quarter. Also, weekly senior management meetings made senior management aware of progress toward achieving performance goals before each quarterly report was prepared. The agency used the quarterly reports as the basis for developing this report.

Most of FHFA's performance indicators reflect data and milestones internal to the agency, with the exception of data used as input to the capital calculations. The performance information reported in this PAR is complete and reliable. Figure 8 shows FHFA's achievement of performance measures for FY 2009.

Figure 8 • FHFA Performance Measures for FY2009



Strategic Goal 1:



Enhance supervision to ensure that Fannie Mae, Freddie Mac, and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.

FHFA's primary duty as a regulator is to promote financially safe and sound operations at the 14 regulated entities so they have the financial strength and operational capacity to fulfill their important role in the nation's housing finance system. Providing a comprehensive and effective oversight program requires attention to the regulated entities' operations and management, the risks inherent in their activities and the controls they have in place to manage those risks, and economic and business conditions.

FHFA seeks to identify and encourage resolution of problems at the regulated entities or in the marketplace before the problems cause significant harm. FHFA is committed to ensuring that its supervisory practices are risk-focused, timely, transparent, and effective.



Former Director Lockhart recognizes FHFA employee contributions at the 2009 awards ceremony.

Performance GOAL 1.1 <i>Fannie Mae and Freddie Mac (the Enterprises) comply with safety and soundness standards.</i>		
MEASURE 1.1.1	The percentage of Enterprises with a composite GSE Enterprise Risk safety and soundness rating of Limited Concerns or better.	TARGET: 100%
	2009 PERFORMANCE The composite GSE Enterprise Risk internal rating for both Fannie Mae and Freddie Mac for FY 2009 was Critical Concerns.	
MEASURE 1.1.2	For both Enterprises, the percentage of GSE Enterprise Risk categories (governance, solvency, earnings, market, credit, and operational risk) with a safety and soundness rating of Limited Concerns or better (1 or 2).	TARGET: 75% for both Enterprises
	2009 PERFORMANCE Less than 75 percent of the component ratings were rated Limited Concerns or better. The composite rating of Critical Concerns is based on a broad set of issues across the component ratings. The rating for capital has been suspended during conservatorship.	

GOAL 1.1 ■ PRIOR YEAR PERFORMANCE

This performance goal has new measures for 2009.

Discussion of Performance Goal 1.1

Substantial deterioration in housing markets through 2008 and volatility and liquidity problems in financial markets through much of the year led to sizeable credit and market risk losses at the Enterprises, depletion of their capital, and an inability of the Enterprises to raise new capital or to access debt markets in their customary way. Because of the stress in the mortgage markets and poor financial performance, neither of the Enterprises was able to achieve the composite rating of Limited Concerns or achieve the target of 75 percent of component ratings at Limited Concerns or better during FY 2009. The Critical Concerns composite rating, assigned for the 2008 examination and reported to Congress in FHFA’s May 2009 Report to Congress, was driven by the amount of credit risk at both Enterprises. The component ratings of Significant Concerns and Critical Concerns in other risk areas reflected issues in market risk management, operational risk, governance, and capital adequacy.

FHFA changed its examination program to better address the highest risks to the Enterprises and the mortgage markets and also provided baseline examination work to promote improvements in risk management and reductions in the Enterprises’ risk profiles. FHFA established an Office of Conservatorship Operations to coordinate the agency’s actions pursuant to the conservatorships. FHFA discussed the Report of Examination with the Board of Directors of each Enterprise in the second quarter of FY 2009, clearly communicating FHFA’s concerns to get the Enterprises’ commitment to

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

Risk Rating Structure for the Enterprises

The supervisory rating structure for the Enterprises is referred to as GSE Enterprise Risk.

GSE stands for governance, solvency, and earnings. Enterprise Risk stands for credit, market, and operational risks. FHFA examiners determine individual ratings for each risk area and an overall composite rating that provides the agency with a picture of the overall condition and safety and soundness of each Enterprise.

Governance

- Includes policies and controls related to financial and regulatory reporting, leadership effectiveness of the Board of Directors and Enterprise management, compliance, overall risk management, strategy, internal audit, and reputation risk.

Solvency

- Includes capital adequacy as determined by regulatory standards, economic capital, capital management, and planning.

Earnings

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

Enterprise Risk

- Includes credit risk, market risk, and operational risk. Credit risk rating relates to a borrower's failure to meet the term of any financial contract with the Enterprise or other failure to fulfill a financial commitment (counterparty risk). Market risk arises from the adverse effects of changes in interest rate or foreign exchange rates. Operational risk is the exposure to loss from inadequate or failed internal processes, people, and systems, or from external events.

When determining the safety and soundness level for each of the GSE Enterprise Risk categories, examiners look at both the quantity of risk and quality of risk management in each area. The rating scheme takes into account external factors such as current market conditions and internal factors including how much risk each Enterprise takes on and how well they measure and manage it. Ratings are given for each area on a four-point scale: No or Minimal Concerns, Limited Concerns, Significant Concerns, and Critical Concerns. The overall rating reflects FHFA's judgment about the safety and soundness of the Enterprise.

To determine the risks related to each of the categories that comprise GSE Enterprise Risk, examiners review the operations and transactions of Fannie Mae and Freddie Mac throughout the year against standards outlined in the supervisory handbook, which is available on FHFA's Web site, www.fhfa.gov. Examiners complete an assessment and rating at the end of each quarter in a process of continuous supervision and examination. At the end of the calendar year, FHFA summarizes the safety and soundness and financial condition of each Enterprise in the agency's annual Report to Congress (www.fhfa.gov), including the overall composite GSE Enterprise Risk rating.

take corrective actions. FHFA also sent MRA letters to communicate matters requiring Board and management attention. FHFA continues to work with the Enterprises' management to ensure appropriate and timely corrective actions to address MRAs.

Performance measures 1.1.1 and 1.1.2 were not met because the condition of the Enterprises deteriorated so severely in the fourth quarter of FY 2008 that the FY 2009 measures, formally adopted in FY 2008, were out of line with the condition of the Enterprises at the start of the fiscal year. Both Enterprises had been placed in conservatorship in September 2008, which rendered remote the possibility of their being characterized as Limited Concerns during the fiscal year.



A rating of Limited Concerns depicts an Enterprise with moderate weaknesses correctable in the normal course of business. The goal of rating the Enterprises as Limited Concerns is unlikely to be satisfied while they remain in conservatorship. Accordingly, FHFA has revised its performance measures for FY 2010. The corresponding performance measures for FY 2010 require improvement in the Enterprises' safety and soundness ratings but do not establish a baseline level for the ratings.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly. Data related to supervision activities are collected through FHFA's supervision process and reviewed by quality assurance staff and FHFA management. Standards for the GSE Enterprise Risk rating system are outlined in *FHFA's DER Supervision Handbook*, which is available to the public on the FHFA Web site at www.FHFA.gov.

Figure 9 • GSE Enterprise Risk Rating System

		Quantity of Risk		
		Low	Moderate	High
Quality of Risk Management	Strong	No or Minimal Concerns	No or Minimal, or Limited Concerns	Limited Concerns
	Satisfactory	No or Minimal, or Limited Concerns	Limited Concerns	Significant Concerns
	Requires Improvement	Limited Concerns	Significant Concerns	Significant or Critical Concerns
	Weak	Significant Concerns	Significant or Critical Concerns	Critical Concerns

Performance GOAL 1.2 <i>The FHLBanks comply with safety and soundness standards.</i>		
MEASURE 1.2.1	Percentage of FHLBanks with a composite rating of "1" or "2."	TARGET: 75%
	2009 PERFORMANCE At the end of FY 2009, 7 of the 13 institutions (12 FHLBanks and Office of Finance), or 62%, had ratings of "1" or "2."	
MEASURE 1.2.2	Augment and strengthen off-site monitoring and risk analysis.	TARGET: By September 30, 2009
	2009 PERFORMANCE FHFA developed and updated metrics and the analytical framework for evaluating the FHLBanks. FHFA continued efforts to expand and renovate the call report system as well as significantly enhance the acquired member asset database.	

GOAL 1.2 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 1.2

The FHLBanks provide wholesale credit, called advances, to members and certain nonmembers for mortgage lending and related activities. Advances are fully securitized by eligible assets. The FHLBanks assume and manage market, credit, and operational risks as a result of their advance business, purchases of whole mortgages, and investments.

During FY 2009, FHFA conducted safety and soundness examinations of the FHLBanks and the Office of Finance and assigned composite and component examination ratings to each FHLBank and the Office of Finance. Performance Measure 1.2.1 established a target of 75 percent of the FHLBanks and Office of Finance achieving a composite rating of "1" or "2." That standard was not met: Seven of the 13 institutions (the 12 FHLBanks and the Office of Finance) had a rating of 2 or better—62 percent of the rated entities.

Deteriorating conditions in housing and financial markets, the FHLBanks' recognition of other-than-temporary impairment, and more difficult funding conditions led to declining ratings at some FHLBanks and caused the composite rating target to not be met for FY 2009.

In FY 2009, the agency conducted an in-depth review of advances and collateral risk management. In addition, FHFA focused on risk management of PLMBS at the FHLBanks. During the course of FY

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

2009, FHFA also augmented and strengthened its off-site monitoring and risk analysis to improve the agency's oversight of the FHLBanks. Notable improvements included the following:

- *Completed income simulation reviews for several FHLBanks;*
- *Reviewed FHLBanks' PLMBS exposures, investment practices, and risk limits;*
- *Drafted initial guidance regarding FHFA review of FHLBank Director compensation standards;*
- *Developed "Model Bank" results for one FHLBank that demonstrated the effects of interest rate changes on the FHLBank's long-term income prospects;*
- *Implemented monthly and quarterly prompt corrective action monitoring program;*
- *Completed HERA-mandated securitization report;*
- *Published quarterly MBS monitoring reports;*
- *Completed market risk profiles of all FHLBanks; and*
- *Completed and obtained approval for enhanced acquired member asset reporting.*

FHLBank Rating System

The FHLBank Rating System, found in Advisory Bulletin 06-04 (December 2006) on the FHFA Web site, is a risk-focused rating system. FHFA rates each FHLBank and the Office of Finance based on an evaluation of five key components: corporate governance, market risk, credit risk, operational risk, and financial condition and performance. The composite rating of the Office of Finance is based primarily on an evaluation of corporate governance and operational risk. The administration of an FHLBank's affordable housing and community investment activities is taken into account under the corporate governance and operational risk components of the rating system.

Under the rating system, FHFA assigns each FHLBank and the Office of Finance a composite rating from 1 to 4. A rating of 1 indicates the lowest degree of supervisory concern, and a rating of 4 indicates the highest degree of supervisory concern. The composite rating of each institution is based on the ratings of the components, which are also rated on a scale of 1 to 4. The composite rating assigned to an institution is not an arithmetic average of the component ratings. Instead, the relative importance of each component is determined case-by-case within the parameters established by this rating system.

The three risk categories of the rating system—low risk, moderate risk, and high risk—designate the level of risk exposure of an FHLBank's market, credit, and operational risks. These risk levels are intended to measure risk and risk management within the context of the FHLBank System. They are not intended to measure risk using an absolute scale or relative to risk levels of other types of financial institutions.

For each of the components, the rating system guidance describes a nonexclusive list of the principal evaluative factors that relate to that component. The rating components are as follows:

Progress continues on several major enhancements to monitoring and analysis programs in support of examinations.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management quarterly. Data related to supervision activities are collected through FHFA’s supervision process and reviewed by FHFA management. Standards for individual risk area rating and composite ratings are outlined in the FHLBank Examination Manual, which is available to the public on the FHFA Web site at www.FHFA.gov.



Acting Senior Deputy Director and Chief Operating Officer Stephen Cross.

A. Corporate Governance



An institution’s corporate governance is rated on the basis of, but not limited to, an assessment of evaluative factors relating to the Board of Directors and senior management, risk management and controls, and compliance. The quality of corporate governance is rated according to rating system guidance.

B. Market, Credit, and Operational Risk

The market, credit, and operational risk ratings of an institution are based on, but not limited to, an assessment of factors relating to the level of risk exposure and the quality of risk management. Examiners assess the level of each risk at an institution, within the context of a government-sponsored enterprise, as low, moderate, or high. Examiners also assess the quality of risk management as strong, adequate, or weak.

In deriving component ratings for market, credit, and operational risk, examiners use a matrix to combine the level of risk exposure and the quality of risk management.

		Level of Risk		
		Low Risk	Moderate Risk	High Risk
Quality of Risk Management	Strong	1	1-2	2-3
	Adequate	1-2	2-3	3-4
	Weak	2-3	3-4	4

Performance GOAL 1.3 <i>Fannie Mae and Freddie Mac (the Enterprises) are adequately capitalized.</i>		
MEASURE 1.3.1	Publish relevant capital information including minimum capital requirement, core capital, and GAAP net worth on FHFA's Web site.	TARGET: At least quarterly
	2009 PERFORMANCE The capital information was posted on FHFA's Web site quarterly throughout the year.	
MEASURE 1.3.2	Begin to measure the Enterprises against an alternative risk-based capital standard as a measure of adequate regulatory economic capital.	TARGET: By September 30, 2009
	2009 PERFORMANCE The market risk component is complete while the credit and operational risk components are still under development.	

GOAL 1.3 ■ PRIOR YEAR PERFORMANCE

This performance goal has new measures for 2009.

Discussion of Performance Goal 1.3

Capital adequacy is an essential component of the Enterprises' safety and soundness and their continued financial viability. The Enterprises currently rely on Treasury to provide capital infusions from purchases of senior preferred stock to maintain positive net worth.

In September 2008 when Fannie Mae and Freddie Mac were placed into conservatorship, Treasury put in place three finance facilities to maintain their financial viability: the GSE Credit Facility, the MBS Purchase Program, and the Senior Preferred Stock Purchase Agreement. The Senior Preferred Stock Purchase Agreement provides a capital backstop for the Enterprises. The other facilities allow Treasury to provide liquidity to the Enterprises and the market.

Classifications of capital adequacy are suspended during conservatorship; however, capital information for the Enterprises was posted on FHFA's Web site in a timely manner. The Enterprises continue to submit capital reports to FHFA during conservatorship. Relevant capital figures, including minimum capital requirements, core capital, and GAAP net worth are available on FHFA's Web site to ensure market transparency. In addition, quarterly capital draws from Treasury's Senior Preferred Stock Purchase Agreement are reported. FHFA has not published critical capital, risk-based capital, or subordinated debt levels during conservatorship as the measures have little meaning with the Enterprises in conservatorship and drawing on the Treasury for capital support.


Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

FHFA continues to make progress in developing an alternative risk-based capital standard for the Enterprises. The alternative risk-based capital standard has three components: market, credit, and operational risk. The market risk component is complete, and capital numbers are provided to the Director quarterly. FHFA is still developing the credit and operational risk components. However, intermediate work products are presented to the Director monthly.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management quarterly.

Performance GOAL 1.4 <i>The FHLBanks are adequately capitalized.</i>		
MEASURE 1.4.1	The FHLBanks meet FHFA’s determination of capital adequacy.	TARGET: By September 30, 2009
	2009 PERFORMANCE All FHLBanks met the capital-to-assets and the leverage capital tests. One FHLBank failed to meet the risk-based capital test at times during the year.	
MEASURE 1.4.2	Issue new risk-based capital rules, regulations, and guidance as required by HERA.	TARGET: By September 30, 2009
Not Applicable	2009 PERFORMANCE The measure was not tracked. The existing risk-based capital rules for the FHLBanks satisfy HERA requirements.	

GOAL 1.4 ■ PRIOR YEAR PERFORMANCE

This performance goal has new measures for 2009.



Discussion of Performance Goal 1.4

Pursuant to the requirements of HERA, FHFA adopted a Capital Classifications and Prompt Corrective Action Rule for the FHLBanks. The interim final rule was effective January 30, and the final rule became effective August 4, 2009. The rule defines four capital classification categories—adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized—and criteria for each classification. The rule also specifies mandatory and discretionary supervisory actions and restrictions applicable to any FHLBank determined to be undercapitalized, significantly undercapitalized, or critically undercapitalized.

As of the end of the fiscal year, all FHLBanks met the capital-to-assets and the leverage capital tests. One FHLBank did not meet the risk-based capital test at times during the year because of the decline in value of its PLMBS portfolio. After the end of FY 2009, FHFA’s Acting Director used his discretionary authority to maintain this FHLBank’s classification as undercapitalized.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management quarterly.

Performance GOAL 1.5 <i>Fannie Mae and Freddie Mac comply with applicable laws, regulations, directives, and agreements, including executive compensation, corporate responsibility, and disclosure.</i>		
MEASURE 1.5.1	Any identified instances of noncompliance with laws and regulations are resolved to FHFA's satisfaction.	TARGET: 100%
	2009 PERFORMANCE Reviewed Enterprise compliance with applicable laws, regulations, and directives, including corporate responsibility, executive compensation, and disclosure requirements. Each Enterprise responded appropriately to address issues identified by FHFA.	
MEASURE 1.5.2	The percentage of actions required by formal regulatory agreements with the Enterprises that are resolved as planned.	TARGET: 100%
Not Applicable	2009 PERFORMANCE The measure was not tracked. Because of the conservatorship, FHFA terminated or suspended the formal regulatory agreements that were previously in place.	
MEASURE 1.5.3	The percentage of matters requiring attention resolved on time to FHFA's satisfaction.	TARGET: 80%
	2009 PERFORMANCE Overall, Fannie Mae and Freddie Mac completed 51% of MRAs due by June 30, 2009, and validated by September 30, 2009.	

GOAL 1.5 ■ PRIOR YEAR PERFORMANCE

This performance goal has new measures for 2009.

Discussion of Performance Goal 1.5

During FY 2009, FHFA monitored the Enterprises’ compliance with laws, regulations, guidance, and directives through continuous supervision activities including examinations and compliance reviews and enforcement actions. FHFA also closely monitored their progress in meeting the requirements of consent orders and agreements between each Enterprise and FHFA.

FHFA targeted examinations and continuous supervision took place throughout the fiscal year. Interaction between the agency and the Enterprises focused on identifying and remediating risk

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

management and governance deficiencies. Although FY 2009 was a stressful time at the Enterprises, they were able to comply with applicable laws, regulations, guidance, and directives.

In FY 2009, FHFA also monitored each Enterprise on its progress in correcting MRAs identified in FHFA examinations and other supervision reviews. An MRA is a specific FHFA supervisory determination communicated to the Enterprise that requires management or Board attention and correction. An MRA is detailed in written communication to the Enterprise and a specific due date for correction is set. An MRA is closed when it is resolved to FHFA's satisfaction.

As of June 30, 2009, Fannie Mae and Freddie Mac had remediated 51 percent of the MRAs outstanding. FHFA changed this target from 95 percent in FY 2008 to 80 percent in FY 2009. Market conditions and the conservatorship created challenges for the Enterprises that required more than one year to correct and yielded additional responsibilities that diverted resources at the Enterprises to other priorities.

FHFA devoted a substantial percentage of its time during FY 2009 evaluating particular aspects of the safety and soundness of the Enterprises, as well as reviewing their action plans and remediation activities for overdue MRAs. FHFA deferred certain parts of the regular examination program, including examination activities normally devoted to monitoring the Enterprises' remediation progress toward closing MRAs.

In addition, some MRAs took longer to correct for several reasons, including the depth and complexity of the problems (such as multiyear IT projects); reprioritization of large, sequential projects as circumstances changed; resource constraints; the priority placed on foreclosure prevention efforts; and unsuccessful efforts to correct deficiencies. However, both Enterprise CEOs have expressed their commitment to remediating MRAs and have required management to step up efforts to do so.

During the year, FHFA met or made notable progress in addressing the highest priorities arising from the conservatorship and recent market events. FHFA devoted more resources and effort to assessing the Enterprises' remediation efforts, which resulted in more MRAs being corrected and validated as the year progressed. FHFA also enhanced its efforts to review MRAs by establishing an Enforcement Oversight Committee during the second quarter of FY 2009. The committee is charged with reviewing past-due MRAs and recommending appropriate enforcement or other supervisory actions to the Deputy Director of the Division of Enterprise Regulation. Increased attention to remediation should decrease the number of past-due MRAs in the future.

Completeness and Reliability of Performance Data

The data for this performance goal are reliable and complete for the first three quarters of the fiscal year. Data on compliance with consent orders and MRAs are collected in FHFA's automated supervisory tool and reviewed by agency management and staff as part of the quality assurance program. Compliance measure reports lag behind by one quarter to allow FHFA time to validate corrective actions. "Compliance" means that the Enterprise has submitted the required item, and FHFA has validated it and finds it acceptable and sustainable. Compliance does not necessarily indicate that the underlying problem has been fully resolved. "Resolved to FHFA's satisfaction" means the Enterprise has corrected the item, and it has been validated by FHFA.

In the case of regulatory agreements, the validation process may be under way, but FHFA continues to validate the completion and effectiveness of remedial measures during ongoing examination activities.




Data on the Enterprises' compliance with regulatory agreements and MRAs as of September 30, 2009, will be available in December 2009. FHFA will include this data in its annual *Report to Congress* in April 2010 and in subsequent agency performance budgets and reports.

Preventing Mortgage Fraud

Intentionally misrepresenting or falsifying information to secure a mortgage is known as mortgage fraud, and it is a criminal activity. Both individuals and institutions can commit mortgage fraud, which can erode public confidence in the financial housing mortgage system.

HERA requires the regulated entities to report suspected fraud to FHFA. In June, FHFA published a proposed rule to implement the fraud reporting requirement in HERA. Under HERA, the regulated entities are free of liability. The proposed rule would also expand fraud reporting requirements to include the FHLBanks and Office of Finance. FHFA will amend its examination guidance after the proposed rule becomes final. During FY 2009, FHFA also issued a regulation and examination guidance requiring the Enterprises to have systems in place to detect and report known or possible mortgage fraud to FHFA. During the year, the Enterprises established, with FHFA examiner oversight, a comprehensive antifraud program that included Enterprise employee training.

FHFA is an active member of the President's Interagency Corporate Fraud Task Force and cooperates with other federal agencies to combat mortgage fraud while working to ensure the safety and soundness of the regulated entities. FHFA also has a memorandum of understanding with the Treasury Department's Financial Crimes Enforcement Network (FinCEN) to share the mortgage fraud information that FHFA develops. Such information becomes part of FinCEN's law enforcement database.

Performance GOAL 1.6 <i>The FHLBanks comply with applicable laws regulations, directives and agreements, including executive compensation, corporate responsibility, and disclosure.</i>		
MEASURE 1.6.1	Any identified instances of noncompliance with laws and regulations are identified and resolved to FHFA's satisfaction or satisfactory remediation plan.	TARGET: 100%
	2009 PERFORMANCE A noncompliance issue related to the cancellation of supplemental mortgage insurance in support of acquired member assets at one FHLBank has not been resolved to FHFA's satisfaction. FHFA entered into a cease and desist order with one of the FHLBanks in 2007. The FHLBank is still operating under that order and has not complied with all parts of that order to FHFA's satisfaction.	
MEASURE 1.6.2	Conduct quarterly quality assurance reviews for at least one bank in each portfolio.	TARGET: By September 30, 2009
	2009 PERFORMANCE FHFA completed six spot reviews of examination work papers, conducted an in-depth quality assurance review, and concluded another in-depth review initiated in the prior fiscal year.	
MEASURE 1.6.3	Establish a matters requiring attention-like measure for tracking follow-up recommendations from annual exams.	TARGET: Establish baseline
	2009 PERFORMANCE An MRA tracking tool was developed in 2009. FHFA is using the tool for FHLBank examinations that began in January 2009.	

GOAL 1.6 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion Performance Goal 1.6

Compliance with applicable laws and regulations and formal agreement is necessary to the safety and soundness of the FHLBanks. An examiner-in-charge who draws on the knowledge and skills of other examiners and agency staff to conduct supervisory activities is assigned to each FHLBank and the Office of Finance. The examiner-in-charge and other agency staff identify key risks, including market, credit, and operational risks at an FHLBank, and develop a supervisory strategy. The supervisory strategy allocates resources to risk areas for an individual FHLBank.

A noncompliance issue related to canceling supplemental mortgage insurance in support of acquired member assets at a particular FHLBank has not been resolved to FHFA's satisfaction. Another FHLBank has been subject to a cease and desist order since 2007 and has not fully effected necessary corrections.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

FHFA also developed an MRA tracking tool in 2009 for FHLBank MRAs. Before this tool became available, examination teams documented and monitored findings using similar but not identical methods. The new tracking tool describes all significant findings, identifies those considered MRAs, and documents timeframes for remediation. FHFA is using the tool for all FHLBank examinations begun in 2009 and outstanding 2008 MRAs to log and document remediation efforts consistently across teams.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Performance GOAL 1.7		<i>Implement the Housing and Economic Recovery Act of 2008 (HERA) and strengthen regulatory infrastructure to enhance the supervision of Fannie Mae and Freddie Mac.</i>
MEASURE 1.7.1	Revise and implement policies, guidance, and regulations for both Enterprises as required by law.	TARGET: Meet quarterly milestones
	2009 PERFORMANCE Infrastructure and project plans are in place, and most regulatory projects are proceeding according to plan. Senior management reviews weekly all overdue projects to ensure they progress to completion.	
MEASURE 1.7.2	Assess FHFA's supervisory standards against relevant industry standards to identify possible gaps or areas for improvement.	TARGET: Complete assessment report
	2009 PERFORMANCE On September 30, 2009, FHFA completed the assessment report of the Division of Enterprise Regulation's supervisory standards.	
MEASURE 1.7.3	Conduct quality assurance reviews for the Division of Enterprise Regulation.	TARGET: Establish baseline
	2009 PERFORMANCE For FY 2009, a baseline of two quality assurance reviews was established.	
MEASURE 1.7.4	The Enterprises submit data based on FHFA's call report regulation.	TARGET: Within six months of final rule
Not Applicable	2009 PERFORMANCE The measure was not tracked. FHFA determined that a regulation was not needed for the Enterprises to submit data via the call report. Absent the need to create a regulation, however, FHFA was able to accelerate the expansion of existing FHLBank call report infrastructure to include the Enterprises. The Enterprises began submitting call reports in mid-2009.	

GOAL 1.7 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 1.7

FHFA has infrastructure and project plans in place to implement HERA's numerous Enterprise regulatory requirements. A number of those projects are complete; others are proceeding according to plan. Regulations and reports with specific statutory deadlines were, with one exception, completed on schedule. However, several HERA-related projects have fallen behind the timelines that project managers established, including regulations regarding Enterprise portfolio standards, housing goals for the Enterprises (2010 and later), prudential management and operations standards, mortgage loan interest rate disparities, and a public use database of Enterprise mortgage data. The agency missed a statutory deadline for the public use database project. Resource constraints, complex policy issues, and other technical issues, such as data availability, delayed certain projects. Senior management reviews weekly all overdue projects to ensure that they progress to completion.

The *Supervision Reference and Procedures Manual* and the prudential standards project, two major projects to identify and address gaps in FHFA's supervisory standards, are under way. Both projects will continue into FY 2010. The *Supervision Reference and Procedures Manual* will standardize examination procedures and references to supervisory standards for Division of Enterprise Regulation staff to use in targeted examinations and continuous supervision activities. The prudential standards project will establish management and operations standards for the regulated entities, as required by HERA. Identifying gaps and areas needing improvement in FHFA supervisory standards are major goals of these projects.

On January 16, 2009, the FHFA Director approved the Division of Enterprise Regulation quality management program. Since then, FHFA has issued two quality assurance reports: the *Quality Assurance Report on Remediation Activities* (April 20, 2009) and the *Quality Assurance Report on Continuous Supervision Activities* (September 17, 2009). These reviews augmented ongoing quality control and quality improvement initiatives by FHFA.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

Performance GOAL 1.8

Implement HERA and strengthen regulatory infrastructure to enhance the supervision of the FHLBanks.

MEASURE 1.8.1

Revise and implement policies, guidance, and regulations for the FHLBanks as required by law.

TARGET:
By September 30, 2009



2009 PERFORMANCE

Infrastructure and project plans are in place, and most regulatory projects are proceeding according to plan. All statutory deadlines were met. Senior management reviews weekly all overdue projects to ensure they progress to completion.

MEASURE 1.8.2

Implement the requirements of the Federal Housing Regulatory Reform Act of 2008.

TARGET:
As required by the Act

Not Applicable

2009 PERFORMANCE

FHFA did not track this measure. FHFA deleted this measure because it is captured under performance measure 1.8.1.

GOAL 1.8 ■ PRIOR YEAR PERFORMANCE


This is a new goal for 2009.

Discussion of Performance Goal 1.8

During FY 2009, FHFA put the infrastructure and project plans into place to implement HERA regulatory requirements for the FHLBanks. A number of those projects are complete; several others are proceeding according to plan. In FY 2009, no projects missed statutory deadlines for completion, although several HERA-related projects fell behind timelines managers set. These included regulations regarding FHLBank membership for community development financial institutions and prudential management and operations standards. Resource constraints, competing supervisory priorities, and complex policy issues delayed some projects. Senior management reviews weekly all overdue projects to ensure they progress to completion.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Performance GOAL 1.9 <i>The FHLBanks individual and combined financial statements comply with applicable laws, rules, and regulations.</i>		
MEASURE 1.9.1	Conduct an on-site examination of the Office of Finance and review annual and quarterly statements issued by the Office of Finance for compliance with disclosure requirements.	TARGET: By September 30, 2009
	2009 PERFORMANCE The examination is complete and report has been delivered. Off-site monitoring of the Office of Finance continues.	

GOAL 1.9 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 1.9

FHFA ensures that the FHLBanks operate safely and soundly and that they issue individual and combined financial statements that comply with applicable laws and regulations.

The 2008 annual examination for the Office of Finance started in the first quarter of FY 2009. The examination was completed and the report delivered to the Office of Finance Board of Directors. Off-site monitoring of the Office of Finance continues throughout the year and includes analyzing debt issuance levels and practices and reviewing combined financial reports. FHFA continues to work with the Office of Finance and its outside counsel to improve reported disclosures. The next annual on-site examination is scheduled for the first quarter of FY 2010.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved





Strategic Goal 2:

Promote homeownership and affordable housing and support an efficient secondary mortgage market.

FHFA recently took over HUD’s responsibilities for overseeing the Enterprises’ new product activity and developing and enforcing affordable housing goals as required by Congress. FHFA uses its authorities to ensure that the Enterprises’ new products, promotion of homeownership, and efforts to achieve affordable housing goals are consistent with their charters and support an efficient secondary mortgage market.

The FHLBanks also serve an important role in homeownership and affordable housing by providing advances to their members and dedicating a portion of their annual earnings to fund an affordable housing program. FHFA is working to complete newly required affordable housing goals for the FHLBanks. The FHLBanks also support the mortgage market by purchasing mortgages and retaining them on their balance sheets.

This year, FHFA made major efforts to communicate and coordinate with Congress, other regulatory agencies, industry participants, and the public. FHFA also contributed to public understanding of the housing markets with its published reports.

Performance GOAL 2.1 <i>Develop proposed and final regulations to implement statutory changes in Fannie Mae and Freddie Mac affordable housing goals effective January 1, 2010, while enforcing existing goals.</i>		
MEASURE 2.1.1	Develop proposed rule implementing statutory changes in Fannie Mae and Freddie Mac affordable housing goals and duty to serve.	TARGET: March 31, 2009
	2009 PERFORMANCE The new target completion date for the proposed rule on duty to serve is the first quarter of FY 2010.	
MEASURE 2.1.2	Develop final rule implementing statutory changes in Fannie Mae and Freddie Mac affordable housing goals and duty to serve.	TARGET: September 30, 2009
	2009 PERFORMANCE The new completion date for duty to serve is the second quarter of FY 2010.	
MEASURE 2.1.3	Set 2009 housing goals.	TARGET: April 30, 2009
	2009 PERFORMANCE FHFA set final affordable housing goals August 10, 2009.	
MEASURE 2.1.4	Enforce Fannie Mae and Freddie Mac 2009 affordable housing goals. ¹	TARGET: Ongoing enforcement
	2009 PERFORMANCE FHFA held monthly meetings with the Enterprises to track progress on meeting affordable housing goals.	

¹ This measure was added after the release of FHFA’s 2009 Performance Plan.

GOAL 2.1 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 2.1

Unforeseen delays resulted in HUD's GSE mission team not transferring to FHFA until January 2009. This delay, combined with the need to recruit an executive-level leader for the new Housing Mission and Goals Office, delayed the start of work on several of these measures. In addition, continued disruption in housing markets caused FHFA to have to undertake a thorough re-evaluation of the Enterprises 2009 housing goals for both the proposed and final 2009 housing goal regulation.

The duty to serve underserved areas is a new HERA requirement for the Enterprises. Duty to serve is defined as serving the secondary mortgage market needs of manufactured housing, rural housing, and housing preservation. The revised target completion date for the duty to serve is the second quarter of FY 2010. FHFA issued an Advance Notice of Proposed Rulemaking (rather than a proposed rule) in the last quarter of FY 2009 to give the public opportunity to comment prior to the release of a proposed rule. FHFA determined this was a preferred course of action because the duty-to-serve requirements are new and the agency would benefit from maximum public participation. As a result of the advance notice process, FHFA received nearly 100 comment letters. In addition, FHFA held several information meetings with industry and consumer advocates. However, FHFA set back the duty-to-serve timetable to complete the higher priority of setting 2009 affordable housing goals.

The *Federal Register* published FHFA's final housing goals regulation for 2009 on August 10, 2009. The affordable housing goals of Fannie Mae and Freddie Mac are central to their mission. FHFA significantly reduced the 2009 affordable housing goals standards from the 2008 target levels to reflect the current instability in the housing finance market. Although the agency lowered most of the goals, FHFA raised the multifamily goal. FHFA meets monthly with the Enterprises to track progress on meeting affordable housing goals.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

Figure 10 • 2009 Housing Goals In Final Rule

Housing Goals	Target 2008	2008 Actual	2008 Actual	2009 Proposed Rule	2009 Final Rule
Goals		Fannie Mae Results	Freddie Mac Results		
Low- and Moderate-Income	56%	53.7%	51.5%	51%	43%
Underserved Areas	39%	39.4%	37.7%	37%	32%
Special Affordable	27%	26.4%	23.1%	23%	18%

Figure 11 • 2009 Housing Subgoals In Final Rule

Housing Subgoals	Target 2008	2008 Actual	2008 Actual	2009 Proposed Rule	2009 Final Rule
Subgoals		Fannie Mae Results	Freddie Mac Results		
Low- and Moderate-Income	47%	38.8%	39.3%	40%	40%
Underserved Areas	34%	30.4%	30.2%	30%	30%
Special Affordable	18%	13.6%	15.1%	14%	14%
Special Affordable Multifamily Subgoal					
• Fannie Mae	\$5.49B	\$13.31B	\$7.49B	\$5.49B	\$6.45B
• Freddie Mac	\$3.92B			\$3.92B	\$4.60B

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Performance GOAL 2.2 <i>The Federal Home Loan Banks foster the development of affordable owner-occupied and rental housing for eligible very low, low- and moderate-income households.</i>		
MEASURE 2.2.1	Establish interim target housing goals for the FHLBanks.	TARGET: June 30, 2009
	2009 PERFORMANCE FHFA expects to set interim target housing goals in the first quarter of FY 2010.	
MEASURE 2.2.2	The FHLBanks address principal affordable housing examination findings to FHFA's satisfaction prior to the next examination.	TARGET: September 30, 2009
	2009 PERFORMANCE FHFA completed the affordable housing program examinations and on-site visitations scheduled during FY 2009. FHLBank management committed to FHFA to address weaknesses identified during the 2009 examinations.	
MEASURE 2.2.3	The FHLBanks distribute affordable housing funds consistent with affordable housing program statutes, regulations, FHFA, and FHLBank policies.	TARGET: September 30, 2009
Not Applicable	2009 PERFORMANCE This measure was deleted because it is a subset of Performance Measure 2.2.2 and is evaluated as part of the affordable housing program examination process.	
MEASURE 2.2.4	Issue regulations implementing HERA's temporary authority to use affordable housing program funds to preserve homeownership.	TARGET: Interim final rule by October 2008; final rule by April 28, 2009.
	2009 PERFORMANCE The final rule was published on July 29, 2009, missing by three months an internal deadline for publication.	

GOAL 2.2 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 2.2

Adoption of affordable housing goals for the FHLBanks is a new statutory requirement. FHFA did not meet the agency's own internal target of establishing interim goals because it needed more time to develop a policy framework for implementing the requirement. However, the policy framework has now been developed and a proposed rule will be released in the first quarter of FY 2010.

FHFA completed all affordable housing program examinations and on-site visitations scheduled during FY 2009. In addition, FHFA conducted midcycle visitations at FHLBanks where program

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

weaknesses were identified and quarterly teleconferences with the community investment officers to follow up on examination issues and identify emerging issues. FHLBank management committed to FHFA to address weaknesses identified during the 2009 examinations.

On October 8, 2008, FHFA published an interim final rule providing temporary authority to use affordable housing program funds to preserve homeownership for low- and moderate-income households. The rule authorizes the use of affordable housing program funds to help qualified homeowners stay in their homes. FHFA did not meet the April 28, 2009, target date established internally for publishing the final regulation because of the number of complex issues involved in the process, the desire to fully incorporate the new MHA program, and the number of comments received on the proposed rule. The final rule was published July 29, 2009.

Figure 12 • Affordable Housing Program (AHP) Performance Overview

AHP Program	Time Period (\$ Millions)	Total Funds Awarded	Total Housing Units
Competitive Application Program	1990–2008	\$3,291	591,805
Homeownership Set-Aside Program	1995–2008	\$362	78,175
Total AHP	1990–2008	\$3,653	669,980

Source: Federal Housing Finance Agency's AHP database as reported by the FHLBanks.

Data as of December 31, 2008, based upon approved applications.

Dollars have been rounded.

Figure 13 • Number of Units Assisted with AHP Awards, by Year 1990-2008

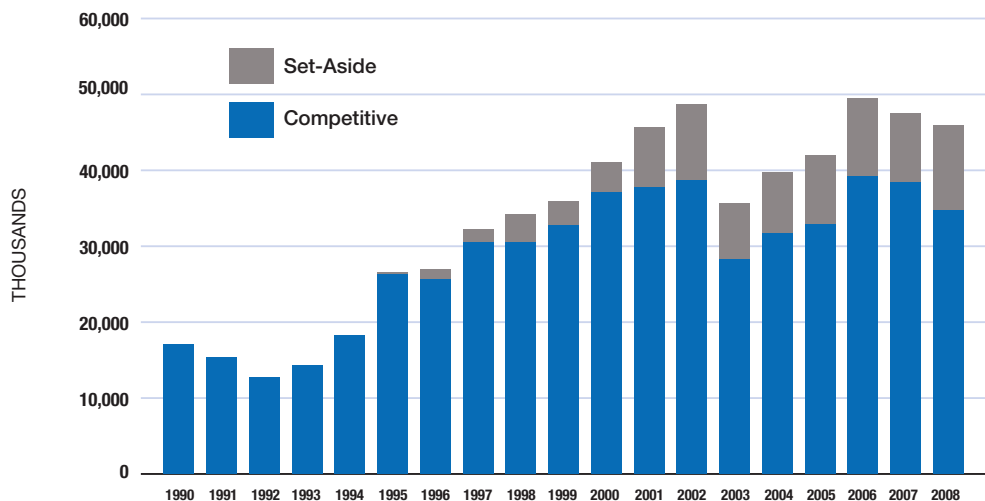
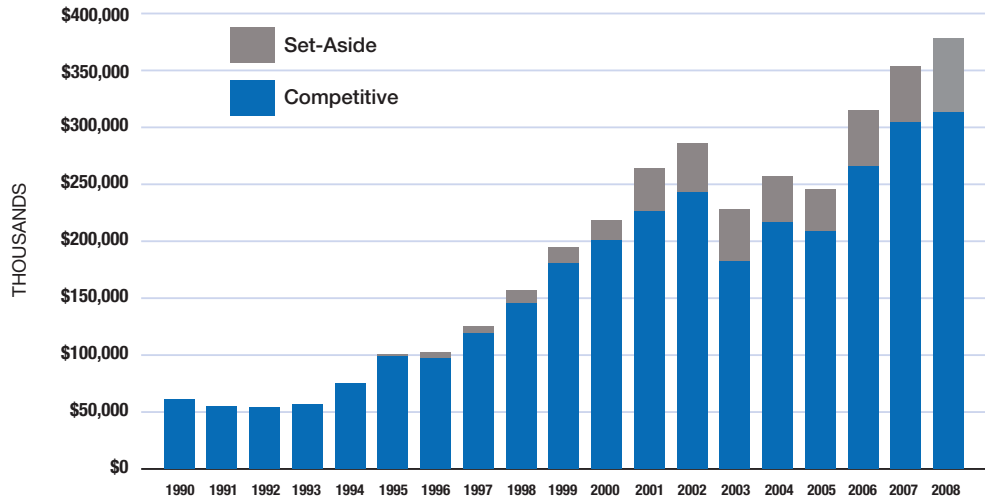


Figure 14 • AHP Subsidy Awarded



Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management quarterly.

<p>Performance GOAL 2.3</p> <p><i>Promote an efficient secondary mortgage market by increasing transparency of mortgage market developments and the 14 housing-related regulated entities’ risks and activities.</i></p>	
<p>MEASURE 2.3.1</p>	<p>Enhance FHFA’s reporting on house prices by developing a median House Price Index utilizing data from outside sources in addition to Enterprise data.</p> <p>TARGET: September 30, 2009</p>
	<p>2009 PERFORMANCE</p> <p>FHFA developed a median House Price Index (HPI) and a draft paper describing the approach for estimating median prices.</p>
<p>MEASURE 2.3.2</p>	<p>Report on FHFA activities, examination results, and conclusions for all 14 housing-related regulated entities in the FHFA annual <i>Report to Congress</i>.</p> <p>TARGET: April 10, 2009</p>
	<p>2009 PERFORMANCE</p> <p>On May 18, 2009, FHFA released and posted the 2008 Report to Congress on www.FHFA.gov. FHFA’s first <i>Report to Congress</i> details annual examinations of Fannie Mae, Freddie Mac, and the FHLBanks. The release exceeded a statutory deadline but fell short of the internal deadline.</p>

Performance Results Key: Goal Fulfillment

- Fully Achieved
- Substantially Achieved
- Not Achieved

Performance GOAL 2.3

Promote an efficient secondary mortgage market by increasing transparency of mortgage market developments and the 14 housing-related regulated entities' risks and activities.

MEASURE 2.3.3

Publish reports required by HERA to enhance understanding of mortgages, mortgage markets, the regulated entities and the nation's housing finance system.

TARGET:
As required by the Act



2009 PERFORMANCE

FHFA published significant studies discussing Enterprise guarantee fees, FHLBank securitization, and the collateral backing FHLBank advances.

GOAL 2.3 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 2.3

During 2009, FHFA continued to provide information to promote an efficient secondary mortgage market. The presentation of accurate and timely information is critical to understanding mortgages, mortgage markets, and the Enterprises' risks and activities. FHFA is uniquely positioned to serve as a resource to the public about these issues. FHFA published a variety of data and reports throughout the year in order to increase the transparency of mortgage market developments as well as Enterprise risks and activities.

During FY 2009, FHFA enhanced its reporting on house prices by developing a median HPI using data from outside sources in addition to Enterprise data. FHFA included the newest FHA data, which improved the scope of the HPI, eliminated duplications, and developed a code for assessing ZIP-code-level medians. FHFA also created new purchase-only indexes for the 25 most populous urban areas and published an analysis of alternative weighting schemes for producing the national index.

FHFA produced and delivered its first *Report to Congress*, which combined the conclusions and results of examination and supervision efforts of the former agencies of OFHEO and FHFH and parts of HUD. On May 18, 2009, FHFA published the 2008 Report to Congress on its Web site, though the report had been completed on schedule in April. The delay in public release was due to a new legislative requirement that members of the Federal Housing Finance Oversight Board approve the report in a special assessment letter included in the document. This required coordination of four agencies, a new additional step not considered in establishing the target dates.

The first FHFA *Report to Congress* includes conclusions from the examinations of the Enterprises and FHLBanks, information about the compensation of FHLBank Directors, and housing mission and goals information for all 14 regulated entities.

Performance Results Key: Goal Fulfillment



Fully
Achieved



Substantially
Achieved



Not
Achieved

Guarantee Fee Study Results for 2007 and 2008

HERA requires FHFA to conduct an ongoing study of the guarantee fees charged by the Enterprises and issue a report to Congress each year. HERA requires FHFA to identify and analyze the

- Revenue and costs associated with the Enterprises' guarantees;
- Factors considered in determining the fees;
- Average fee charged;
- Revenues and costs based on product type and risk classifications;
- Fees per lender size group; and
- Changes from the previous year.

FHFA's first annual report, issued July 30, 2009, covered single-family fees for loans acquired in 2007 and 2008. The sample of mortgages used to prepare that report represented 79 percent and 89 percent, respectively, of the unpaid principal balance of single-family mortgages the Enterprises acquired in 2007 and 2008. Analysis of those data indicated the following:





1. The Enterprises responded to the deteriorating housing market conditions with guarantee fee pricing increases announced beginning in the fourth quarter of 2007. Increases took effect beginning in March 2008. The fee increases more closely aligned revenue on new business with expected costs.
2. The average cost of guaranteeing single-family mortgages acquired by the Enterprises in 2007, as estimated by the internal Enterprise costing models at the time of acquisition, was significantly higher than the average estimated guarantee fee charged by the Enterprises, which reflected the general market underpricing of mortgage credit risk in that year.
3. The Enterprises consider model-derived cost estimates when setting their single-family guarantee fees. However, fees on lower risk loans often subsidize the guarantees on higher risk loans. In both 2007 and 2008, the cross-subsidies were evident across product types, credit score categories, and loan-to-value ratio categories.
4. In 2008, the credit profile shifted toward lower risk loans, as more 15-year fixed-rate loans, high credit score loans, and low loan-to-value ratio loans were acquired.
5. Loans acquired from the top 10 lenders at each Enterprise accounted for nearly 80 percent of their combined business volume in 2007 and 2008.
6. Lenders that deliver smaller volumes of single-family mortgages to the Enterprises tend to pay higher guarantee fees on loans of similar credit quality. There are several reasons, including considerations by the Enterprises for the MBS liquidity contributions of larger lenders, negotiating power of larger lenders, and reduced Enterprise cost per loan for higher volume lenders.



This year, FHFA also contributed substantially to the public understanding of housing-related topics through published reports. Though much of FHFA's research and analysis involves projects for internal purposes only, all FHFA reports, research papers, and staff working papers made available to the public are posted on the FHFA Web site.

During the year, FHFA published two research papers and four mortgage market notes dealing with a wide range of mortgage market issues. FHFA also co-sponsored a one-day symposium on mortgage default assessment with the FDIC, which took place on September 16, 2009.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Performance GOAL 2.4		<i>Communicate effectively with all stakeholders on the 14 housing-related regulated entities' risks and activities, mortgage markets, the nation's housing finance system, and regulatory issues.</i>
MEASURE 2.4.1	Percentage of survey respondents visiting FHFA's Web site who find it a useful resource.	TARGET: Establish baseline
	2009 PERFORMANCE The baseline was established as 85.74%.	
MEASURE 2.4.2	Respond to all public inquiries.	TARGET: Within 30 business days
	2009 PERFORMANCE FHFA responded to all e-mails within the 30-business-day target.	
MEASURE 2.4.3	Meet with industry stakeholders to address current topics and receive input from the industry. Identify issues and potential solutions to address these issues.	TARGET: Quarterly
	2009 PERFORMANCE Met quarterly with industry stakeholders and increased coordination and outreach on a number of issues.	
MEASURE 2.4.4	Respond to all congressional inquiries and identify any systemic trends for appropriate action.	TARGET: Within 10 business days
	2009 PERFORMANCE For the fiscal year, FHFA responded to formal congressional inquiries with an average response time of 17 business days. FHFA received four times the usual number of congressional inquiries during the year because of the challenging economic environment and financial condition of the Enterprises.	

Performance GOAL 2.4 <i>Communicate effectively with all stakeholders on the 14 housing-related regulated entities' risks and activities, mortgage markets, the nation's housing finance system, and regulatory issues.</i>		
MEASURE 2.4.5	Implement ombudsman program.	TARGET: March 31, 2009
	2009 PERFORMANCE An ombudsman program was not implemented in FY 2009. A proposed rule creating the Office of the Ombudsman and a vacancy announcement for an ombudsman are scheduled to be published in the first quarter of FY 2010.	
MEASURE 2.4.6	Work with Congress and the Administration to develop postconservatorship Enterprise model.	TARGET: September 30, 2009
	2009 PERFORMANCE FHFA weekly meetings continue to cover various options for postconservatorship status. During FY 2009, Director Lockhart and Acting Director DeMarco incorporated future structure comments into speeches and testimony before Congress.	

GOAL 2.4 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 2.4

Communication with stakeholders is critical to FHFA's support of an efficient secondary mortgage market. Through its Web site, FHFA provides the public with information on the 14 regulated entities, the risks they face, the economic environment in which they operate, and policy issues facing FHFA. The FHFA Web site features detailed information about the agency's HPI, including an HPI calculator, speeches and testimony, policies and guidelines, capital classifications, research and working papers, and news releases that apply to the 14 regulated entities.

In 2006, legacy agency OFHEO began an ongoing survey of the agency's Web site to monitor whether it adequately served the usability and information needs of stakeholders and the general public. In the third quarter of FY 2009, the Web site survey was moved from www.OFHEO.gov to the new agency's site, www.FHFA.gov.

FHFA also continued to respond promptly to inquiries from the public during FY 2009. The agency handled significantly increased volumes of public inquiries in FY 2009. When inquiries are submitted from the public that do not fall under the agency's purview, FHFA staff make every effort to help the inquirer find the appropriate source instead of just turning the request away. FHFA is committed to responding accurately and as promptly as possible to public inquiries.

FHFA met quarterly with industry stakeholders and increased coordination and outreach on a number of issues, including the MHA program, Home Valuation Code of Conduct, and the conservatorships of the Enterprises.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

FHFA is committed to prompt and clear communication with members of Congress and their staffs. The agency strives to respond to inquiries as quickly as possible with accurate information and to keep appropriate committees and members updated with the latest information on key topics that Congress is addressing. The agency received four times as many congressional inquiries as in the previous year, which negatively affected response times. FHFA works to maintain open communication channels with congressional offices and committees.

FHFA has not yet implemented an ombudsman program. During FY 2009, the agency researched best practices for an ombudsman program and drafted a proposed rule to create the Office of the

Competing House Price Indexes

FHFA's quarterly HPI provides important information to consumers, analysts, and policymakers on changes in house prices. HPI captures the levels of changes in the value of single-family homes in the United States in various regions, individual states, and the District of Columbia.

In addition to FHFA's HPI, a number of other widely cited house price measures aim to reflect market conditions across the country. The S&P/Case-Shiller HPIs use the same fundamental "repeat-sales" approach to estimating price movements as FHFA's index does. A set of indexes from First American CoreLogic, the LoanPerformance HPI, also uses the repeat-sales approach. The LoanPerformance national index is now used by the Federal Reserve to adjust its flow-of-funds estimate of the value of housing stock.

Although the S&P/Case-Shiller and LoanPerformance indexes share the same basic methodology used by FHFA, the underlying data sources are different. FHFA's data source is mortgage-level data received from the Enterprises. The mortgage data include sales price information for homes financed with mortgages bought or securitized by the Enterprises. S&P/Case-Shiller and LoanPerformance sales price information is generally derived from data collected at county recorder offices. This recorder-based information reflects transaction prices for all home sales, regardless of the type of financing used.

In addition to the difference in data sources, the S&P/Case-Shiller and LoanPerformance measures employ slightly different methodologies than FHFA's index does.² The FHFA national index is constructed as a weighted average of price changes in the nine Census divisions. The LoanPerformance index is transaction-weighted so areas with more home sales have greater influence on the national index.

In S&P/Case-Shiller's national measure, a U.S. index is formed as a weighted average of the nine Census division indexes. This approach is similar to FHFA's, but the nine Census division weights are different. S&P/Case-Shiller also produces a 20-city composite measure, which is a weighted average of 20 metropolitan area indexes.

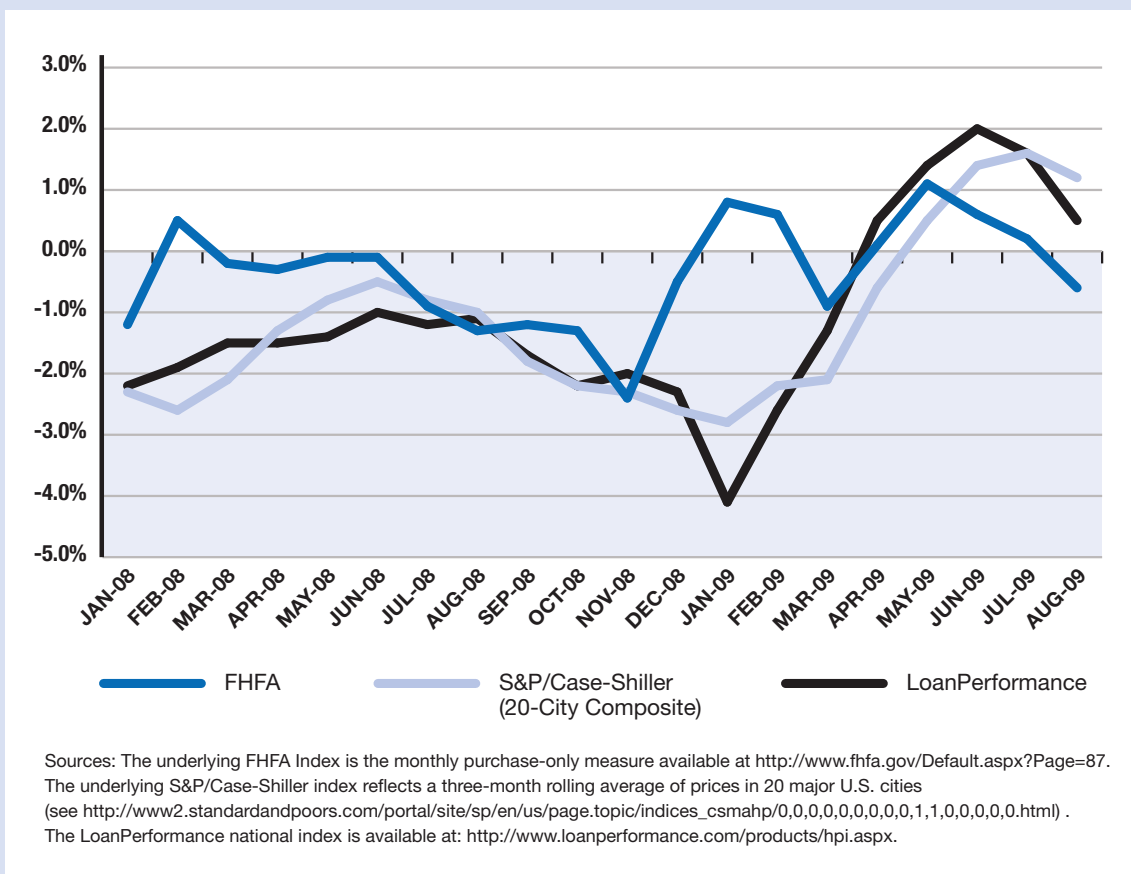
FHFA actively monitors price trends reflected in the other price indexes and attempts to determine why the various numbers diverge. Differences in weighting of subareas consistently explain much of the divergence. FHFA's national HPI generally shows more modest price declines than are shown in the other indexes. However, the three indexes trend in the same basic direction.

Ombudsman along with an ombudsman position description. FHFA also developed a proposed structure and draft rule in FY 2009, but the program was not completed because of competing priorities. FHFA plans to issue the proposed rule creating the Office of the Ombudsman and to publish an ombudsman vacancy announcement in the first quarter of FY 2010.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management quarterly.

Figure 15 • Monthly House Price Changes (Not Seasonally Adjusted) as Measured by Three Major Indexes



² A discussion of the differences between the FHFA (formerly OFHEO) indexes and the S&P/Case-Shiller measures is available at www.fhfa.gov/webfiles/1163/OFHEOSPCS12008.pdf. The empirical analysis included in that paper aims to reconcile differences across the respective city indexes. The reconciliation analysis is updated quarterly and made available at www.fhfa.gov/Default.aspx?Page=87.

Performance GOAL 2.5

Cooperate with other federal agencies on mortgage markets and the nation's housing finance system and regulatory issues.

MEASURE 2.5.1

Respond to requests from other federal agencies for information about housing finance markets and the Enterprises.

TARGET:
Within 30 days



2009 PERFORMANCE

FHFA responded to numerous requests from government departments and federal agencies. These included various requests relating to mortgage market conditions, debt issuance, the MHA programs, and initiatives for loan modification and foreclosure prevention.

MEASURE 2.5.2

Meet with other federal financial regulators to discuss issues related to the regulation of the 14 housing-related regulated entities and the housing finance system.

TARGET:
At least quarterly



2009 PERFORMANCE

The Director of FHFA and other divisions of the Agency met regularly with senior officials of financial regulatory agencies to keep each other informed about the rapidly changing conditions in the mortgage and debt markets.

MEASURE 2.5.3

Work with other Oversight Board Members to ensure Emergency Economic Stabilization Act compliance.

TARGET:
Meet at least quarterly



2009 PERFORMANCE

FHFA was a full and active participant attending all Financial Stability Oversight Board (FSOB) meetings and contributed to each of the Board's quarterly reports.

GOAL 2.5 ■ PRIOR YEAR PERFORMANCE

This goal has new measures for 2009.

Discussion of Performance Goal 2.5

Communication was one of FHFA's highest priorities during the year. Without FHFA's strong communication and coordination among numerous government agencies and industry players, the successes and milestones in improving the fragile markets and addressing the critical safety and soundness issues in the regulated entities could not have been achieved. Through regular and ad hoc meetings over the past year, a constant flow of information and ideas led to the development of several programs that helped stabilize the markets and reduce the number of foreclosures.

FHFA responded to numerous requests from government departments and federal agencies. These included requests relating to mortgage market conditions, debt issuance, and initiatives for loan modification and foreclosure prevention. FHFA provided information to many federal agencies, including the Department of the Treasury, HUD, the Federal Reserve Board, the SEC, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and FDIC. FHFA has worked closely

Performance Results Key: Goal Fulfillment



Fully Achieved



Substantially Achieved



Not Achieved

with other government agencies to communicate, understand, and address the risks in the regulated entities and the mortgage markets.

The Director of FHFA and deputy directors of the divisions of the agency meet regularly with senior officials of other financial regulatory agencies to keep each other informed about the rapidly changing conditions in the mortgage and debt markets. These meetings have also facilitated efforts to advance foreclosure prevention initiatives, such as the MHA programs.

FHFA also worked closely with the other federal financial regulators to communicate an understanding of and address the risks at the Enterprises and in the mortgage markets.

FHFA and Federal Interagency Efforts

FHFA's participation in interagency efforts is critical to the government response to the housing and financial crisis and plans for financial reform because the entities FHFA regulates are central to the country's mortgage markets.

FHFA is a member of the FSOB and a participant in the President's Working Group on Financial Markets. The Emergency Economic Stabilization Act of 2008 (EESA) established FSOB to help oversee the Troubled Asset Relief Program (TARP) and other emergency authorities and facilities the Stabilization Act granted to the Secretary of the Treasury. FSOB is composed of the Treasury Secretary, the Chairman of the Board of Governors of the Federal Reserve, the Director of FHFA, the Chairman of the SEC, and the Secretary of HUD.

As a member of FSOB, FHFA helps review and monitor development and implementation of policies and programs to restore liquidity and stability to the country's financial system. Those policies and programs are reinforced by other actions taken by the United States and foreign governments to assist financial markets. For example, Treasury actions under TARP and actions of the Federal Reserve aided the housing market and mortgage borrowers, keeping credit markets functioning and aggressively supporting the demand for mortgage-backed securities.

The President's Working Group on Financial Markets coordinates agency responses to financial market issues and discusses proposals for reforming financial regulation. Members include representatives from Treasury, the Board of Governors of the Federal Reserve, the Commodity Futures Trading Commission, and the SEC. FHFA was invited to participate in the working group in 2008, joining the several federal banking agencies as participants.

A Department of Treasury white paper, *Financial Regulatory Reform: A New Foundation*, also proposes that FHFA be a founding member of a proposed Financial Services Oversight Council that would monitor emerging systemic risks and improve interagency cooperation.

FHFA also is working to become a liaison member of the Federal Financial Institutions Examination Council to help improve interagency coordination in regulating and supervising both primary and secondary mortgage markets.

The Federal Housing Finance Oversight Board reviewed FHFA's Report to Congress at its April 4, 2009, meeting. Subsequently, the Board provided its assessment of the regulated entities' condition for the annual report as required by statute.

FHFA also participated actively at all 17 meetings of the FSOB and contributed to each of its quarterly reports.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

Strategic Goal 3:

Through conservatorship, FHFA will preserve and conserve the assets and property of Fannie Mae and Freddie Mac (the Enterprises) and enhance their abilities to fulfill their mission.

FHFA's decision to place Fannie Mae and Freddie Mac into conservatorship on September 6, 2008, was a result of substantial deterioration in the housing markets, volatility and liquidity problems in financial markets, and the inability of the Enterprises to raise new capital and access debt markets in their customary way. At that time, FHFA, along with Treasury and the Federal Reserve, recognized that Fannie Mae and Freddie Mac would be unable to fulfill their mission of providing liquidity and stability to the housing market given their financial condition.

As part of the conservatorship action, new Chief Executive Officers and independent Chairmen of the Board were put in place. The Enterprises also formed new boards and FHFA delegated certain day-to-day functions back to the Enterprises. In consultation with FHFA as conservator, Enterprise management and the boards have refocused their strategic objectives to emphasize sustainable long-term results instead of short-term profit maximization.

Both Enterprises have communicated the realigned goals and have tied performance results to compensation. As conservator, FHFA has focused Fannie Mae and Freddie Mac on three primary objectives:

- **Providing stability and liquidity to the housing market.** *The Enterprises achieve this objective through more disciplined underwriting, providing industry leadership, and continuing to play a market-leading role in the guarantee of mortgage assets.*
- **Remediating known weaknesses.** *FHFA is closely monitoring actions that the Enterprise boards and management are taking to correct weaknesses cited in 2008 annual Report of Examination. Progress continues, but additional efforts are required to remediate all the identified weaknesses.*
- **Supporting the Administration's housing and economic recovery programs.** *FHFA is actively engaged with the Administration and management teams at Fannie Mae and Freddie Mac to support Administration initiatives to restore stability to housing and reduce credit losses by preventing avoidable foreclosures.*

Performance Results Key: Goal Fulfillment



Fully Achieved



Substantially Achieved



Not Achieved

**Performance
GOAL 3.1***Preserve and conserve each Enterprise's assets and property.***MEASURE
3.1.1**

Financial condition of each Enterprise remains liquid and they maintain positive GAAP net worth, including Senior Preferred Stock.

TARGET:
100%**2009 PERFORMANCE**

The Treasury Preferred Stock Agreement continues to support the Enterprises' positive net worth with remaining sufficient capacity.

GOAL 3.1 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 3.1

In FY 2009, both Enterprises maintained liquidity and access to short-term debt markets, assisted by various government supports. Specifically, Treasury has been an active purchaser of Enterprise MBS. The Federal Reserve Board has also supported the mortgage market through purchase of Fannie Mae and Freddie Mac securities and debt. The combined commitment of resources and support from the federal government exceed \$2 trillion and have allowed Fannie Mae and Freddie Mac to continue providing necessary liquidity and play a leading role implementing the Administration's MHA program.

In the second quarter of FY 2009, Treasury announced the continued support of Fannie Mae and Freddie Mac by increasing the Preferred Stock Purchase Agreements to \$200 billion each. The Treasury Preferred Stock Agreement continues to support the Enterprises' positive net worth.

However, continued deterioration in the mortgage market and rising delinquency rates make future draws on the Treasury agreement likely.

*The staff of the Office of Conservatorship Operations meets regularly.***Completeness and Reliability of Performance Data**

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system and reviewed by senior management quarterly.

Enterprise Draws on Senior Preferred Stocks

At the beginning of the Enterprises' conservatorships, the Department of the Treasury initiated the Senior Preferred Stock Purchase Agreement to ensure both Fannie Mae and Freddie Mac maintained a positive net worth.

Under these agreements, as amended, Fannie Mae and Freddie Mac may draw up to \$200 billion each to maintain a positive net worth. As the Enterprises' requests for capital are funded by the United States Treasury, the liquidation value of the already issued senior preferred stock certificates is proportionately increased.

To determine when additional draws are necessary, the Enterprises use a simple formula (GAAP assets minus GAAP liabilities). If the difference is negative, the Enterprises request sufficient funds from Treasury to make a positive net worth. This determination is made quarterly and is completed so that the figures to determine the Enterprises' net worth position reconcile with the financial statement they file with the SEC.

The agreement also requires a quarterly 10 percent dividend payment to Treasury on the outstanding draws, including the original one million shares of senior preferred stock issued as a commitment fee at the beginning of conservatorship. The agreement also requires the Enterprises to certify compliance with covenants that address specific measures from the financial statements, as well as other critical governance matters. Limits on the size of the Enterprises' on-balance-sheet mortgage assets and total indebtedness are also part of the covenants.

Performance GOAL 3.2

Continue to delegate appropriate authorities to each Enterprise's management to move forward with the business operations.

MEASURE 3.2.1

Each Enterprise has leadership appointed by FHFA to carry out ongoing business.

TARGET:
100%



2009 PERFORMANCE

At the end of FY 2009, 94% of key positions were filled.

MEASURE 3.2.2

Establish new Boards of Directors at each Enterprise.

TARGET:
100%



2009 PERFORMANCE

Both Enterprises reconstituted their Boards of Directors in December 2008.

GOAL 3.2 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 3.2


FHFA substantially achieved this target only because of continued turnover at executive levels throughout the year.

At the initiation of the conservatorship, new CEOs were named, and well-qualified external chairmen of the board were put in place. In consultation with FHFA, both Enterprises reconstituted their Boards of Directors in December 2008. Following resignations of the CEOs hired at the time of conservatorship, FHFA worked with the boards of both Enterprises to hire qualified individuals to fill these vacancies. FHFA worked with the Enterprises and the Department of the Treasury to implement executive and staff retention programs to ensure operations continued.

Both Enterprises have made significant progress in filling significant vacancies in the executive management level, enhancing the Enterprises' ability to appropriately focus on key business strategies. Filling executive management vacancies is extremely positive for both Enterprises; however, key personnel risk at both Enterprises remains a major challenge. Below the executive levels, key officer vacancies remain and uncertainties about the future of the Enterprises coupled with improvements in the overall economy have caused some employees and officers to seek outside employment. The personnel risk exposure remains at both Enterprises and they, along with FHFA, are working on available options to control the risk through appropriate retention and incentive plans.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system and reviewed by senior management quarterly.

Performance GOAL 3.3 <i>Work with the Enterprises to lessen problems in mortgage markets by reducing preventable foreclosures.</i>	
MEASURE 3.3.1	The Enterprises increase the number of loan modifications by 25% over the 2008 amount and reduce the redefault rate by 25%.
	TARGET: 25%
	2009 PERFORMANCE The Enterprises are on track to achieve this target; however, the initial data will not be available until March 31, 2010.

GOAL 3.3 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 3.3

The Streamlined Modification Program was announced November 11, 2008, and implemented by the Enterprises December 15, 2008. Fannie Mae and Freddie Mac suspended foreclosure sales and evictions from Enterprise-owned single-family properties through March 31, 2009. The suspension applied to all single-family properties, including owner-occupied properties that have been foreclosed

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

upon as well as foreclosed properties occupied by renters. These actions gave the servicers time to work with borrowers in need of assistance.

Treasury announced the MHA program on March 4, 2009. Both Fannie Mae and Freddie Mac announced support for the new national Home Affordable Modification Program (HAMP), a component of the MHA program, which began on April 1, 2009, and is designed to help more at-risk borrowers achieve successful homeownership by lowering their monthly payments.

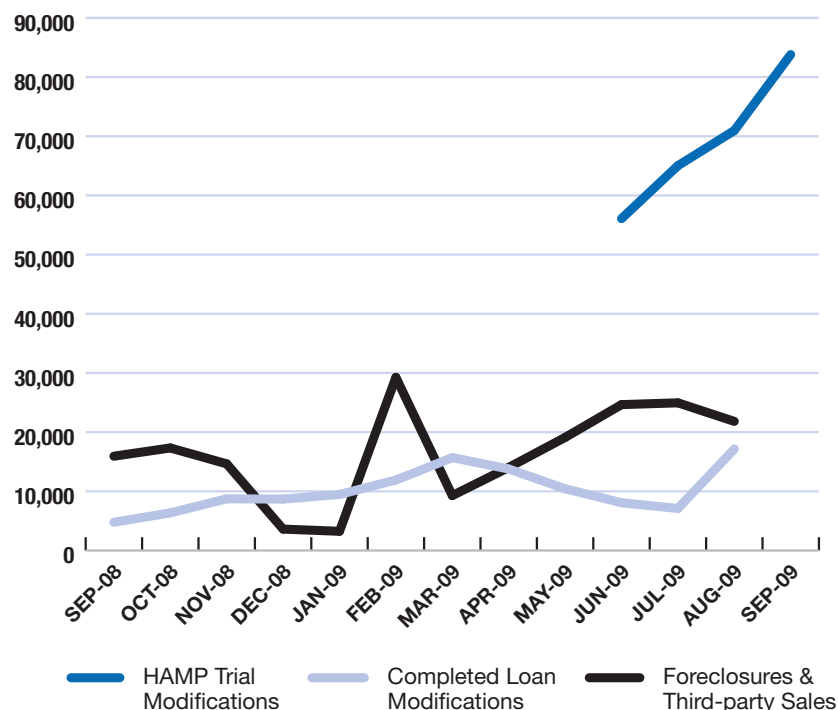
Both Enterprises are devoting significant resources to programs aimed at reducing default rates and preventing avoidable foreclosures. The most recent *Making Home Affordable Report* indicates that Fannie Mae and Freddie Mac's trial mortgage loan modifications under the Administration's HAMP reached 487,081 in September 2009. The vast majority of modified loans are still in the required trial period. Therefore, FHFA will not be able to determine the completed loan modifications and redefault rates until March 31, 2010.

Treasury and FHFA recognized that moving loans from a trial period to a permanent modification has been challenging because of incomplete or missing documentation from borrowers. To allow borrowers additional time to provide proper documentation, HAMP now permits the servicer to grant an extension of the trial period up to December 31, 2009.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system and reviewed by senior management quarterly.

Figure 16 • Enterprises Foreclosure & Third-party Sales Completed and Loan Modifications







Resource Management Strategy:

Manage effectively FHFA's human capital and resources to support our mission.

Because of the important challenges facing the regulated entities and the difficult conditions in the mortgage market, creating FHFA and transferring employees as quickly as possible was a critical priority. FHFA faced enormous challenges in merging IT systems and applications, financial and human resources functions, and agency cultures to meet the needs of the new agency.

As a small but growing agency, FHFA relies on staff and management to accomplish its goals through results-oriented, cross-organizational teams. FHFA managers use timely information for decision-making that links strategic planning, program performance, budget, and operational strategies. FHFA invests in the talents of its staff, relies on effective IT solutions, and proactively leverages its human capital resources and commercial sources to provide efficient and cost-effective services.

Performance GOAL 4.1	<i>Maintain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the goals of the agency.</i>	
MEASURE 4.1.1	Establish human capital policies and programs for FHFA.	TARGET: September 30, 2009
	2009 PERFORMANCE During FY 2009, FHFA implemented key human capital policies, plans, and programs.	
MEASURE 4.1.2	Develop the Human Capital Plan for FHFA to include a Workforce Plan and Succession Plan for Leadership.	TARGET: September 30, 2009
	2009 PERFORMANCE In FY 2009, FHFA completed the Workforce and Succession Management Plans and published the FHFA Strategic Human Capital Plan for 2009–2011.	
MEASURE 4.1.3	Percentage of vacancies filled within OPM's 45-day time-to-hire standard.	TARGET: 72%
	2009 PERFORMANCE 73% of vacancies filled met the OPM 45-day time-to-hire standard.	
MEASURE 4.1.4	Maintain a diverse workforce by increasing the number of minority, women, and disabled applicants for open vacancy announcements.	TARGET: Establish baseline
	2009 PERFORMANCE During FY 2009, a total of 4,528 applications were received and processed. Of the applications received, the voluntary, self-reported diversity statistics are as follows: <ul style="list-style-type: none"> • Female: 37% • Minorities: 44% • No Answer: 7% • Disabled: <1% 	

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

GOAL 4.1 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 4.1

FHFA's workforce is its most valuable resource. Throughout FY 2009, FHFA conducted a variety of outreach activities with the goal of hiring a diverse staff with cutting-edge professional skills and a breadth and depth of knowledge in their areas of expertise. Technical competence, skills, experience, and the ability to work in a team environment are crucial to ensuring the successful achievement of FHFA's goals.

During FY 2009, FHFA implemented key human capital policies, plans, and programs, including

- *Merit Promotion Plan*
- *Nonexecutive Compensation Policy*
- *Executive Compensation Policy*
- *Performance Evaluation Management System Policy*
- *Administrative Grievance Policy*
- *Human Capital Accountability System Policy*
- *Telework Policy*
- *FHFA Benefits Program*
- *Premium Pay Policy*
- *FHFA 2009–2011 Strategic Human Capital Plan and Workforce and Succession Management Plan*
- *2009 Strategic Recruitment and Outreach Agency Plan*
- *2009 Strategic Recruitment and Outreach Action Plan*
- *Recruitment & Outreach Resource Guide for HR Specialists*
- *Suggestion Program*
- *Administrative Support Staff Program*
- *2009 Summer Intern Program*
- *FHFA Wellness Program*
- *Retirement and Financial Education Plan*

By establishing human capital policies, plans, and programs, FHFA was able to successfully transfer employees to the new agency, support the efficient and effective management of employees, and allow for the recruitment and hiring of highly qualified diverse candidates. Additional human capital policies, plans, guides, and programs will continue to be developed in FY 2010.

In FY 2009, FHFA completed the Workforce and Succession Management Plans and published the FHFA *Strategic Human Capital Plan* for 2009–2011. The strategic plan addresses organizational alignment, workforce planning, leadership knowledge, results-oriented performance culture, talent management, and accountability in the context of FHFA’s workforce and operating environment.

In FY 2009, FHFA maintained a strong commitment to recruiting and retaining a high-caliber workforce and ensuring that the employees have the skills and expertise necessary to meet the important goals and mission of the agency. FHFA made major strides in establishing a baseline for the percentage of minority, women, and disabled applicants. The agency tracked applicant statistics throughout FY 2009 to establish a baseline of the percentage of applications received from minority, women, and disabled applicants and the percentage of those that were referred on certificates to managers. The intent of establishing a baseline is to enable FHFA to track increases or decreases in the number of minority, women, and disabled applicants applying for FHFA vacancies and the percentage of minorities being referred for consideration. By monitoring and tracking these statistics, FHFA can adjust targeted recruitment efforts; preemptively identify barriers to attracting minority, women, and disabled applicants; and analyze return on investment of recruitment activities

During FY 2009, FHFA received and processed a total of 4,528 applications, with voluntary self-reporting of 37 percent women, 44 percent minorities, and less than one percent disabled; seven percent did not self-report.³

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. Review of approved human resources policies is done against the FHFA human resources implementation plan. The FHFA *Strategic Human Capital Plan* was approved by the Chief Human Capital Officer, Chief Administrative Officer, Chief Operating Officer, and Director.

For Performance Measure 4.1.3, the data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management quarterly. Demographic data are captured through the online application system. Because applicant self-identification of demographic data is strictly voluntary, FHFA may not have demographic data for 100 percent of the applications. Analysis is based on the data provided by applicants and supplied in aggregate reports.

³ Totals do not equal 100 percent because candidates may fall into more than one category.

Performance GOAL 4.2

Provide effective information resource management services to FHFA managers and staff to support the goals of the agency.

MEASURE 4.2.1

Increase compliance with OMB Enterprise Architecture Assessment Framework.

TARGET:
Maintain an Enterprise Architecture score of 4 in Completion, Use, and Results sections



2009 PERFORMANCE

Completed the Enterprise Architecture Assessment Framework assessment scorecard, which rates FHFA with a 4 in Completion, Use, and Results.

MEASURE 4.2.2

Percentage of help desk requests during the business day that are responded to within 4 hours.

TARGET:
Establish baseline



2009 PERFORMANCE

FHFA established a baseline of 95%.

MEASURE 4.2.3

Percent of time FHFA's IT systems are available for use by the FHFA staff.

TARGET:
98%



2009 PERFORMANCE

System availability exceeded 98% each quarter of the fiscal year.

MEASURE 4.2.4

Maintain or complete required Certification and Accreditation of FHFA major information systems in production.

TARGET:
100%



2009 PERFORMANCE

100% of all FHFA systems in production have been properly certified and accredited.

MEASURE 4.2.5

Percentage of security incidents that are reported within the timeframe defined by the associated federal agency incident category as defined in FHFA Guideline 114, Information Systems Security Incident Response and Breach Notification Policy.

TARGET:
100%



2009 PERFORMANCE

All security incidents were reported within the timeframe during the year.

GOAL 4.2 ■ PRIOR YEAR PERFORMANCE

This goal has new measures for 2009.

Discussion of Performance Goal 4.2

FHFA has depended on the strategic use of IT in order to effectively supervise and oversee the Enterprises. FHFA has made significant strides in improving its IT processes, applications, and systems. In FY 2009, FHFA successfully increased compliance with OMB's Enterprise Architecture Assessment Framework. Furthermore, FHFA established a baseline of 95 percent for the percentage of help desk requests during the business day that are responded to within four hours.

FHFA also maintained availability of its network for staff use for more than 98 percent of business hours each quarter of FY 2009. FHFA continuously monitored and recorded network uptime to ensure maximum system availability. Specifically, FHFA implemented tools to monitor environmental controls, network components, file servers, and critical services. In addition, these monitors provided for system performance alerts that ensure that systems staff addresses any issues expeditiously.

A critical element of the FHFA Information Security Program is incident response. OTIM proactively manages incident response to ensure any violations are reported in a timely manner and potential damage to FHFA systems or misuse of data is minimized. The Security Handbook was placed on the FHFA shared drive and the employee internal communications Web site in February 2009. The Handbook includes specific information on the roles and responsibilities of end users in reporting suspected security incidents in a timely manner and cooperating in the investigation of such incidents.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

The Agency Enterprise Architecture self-assessment is performed by FHFA's Enterprise Architect. FHFA's Chief Information Officer, Deputy Chief Information Officer, and Chief Technology Officer evaluate Enterprise Architecture artifacts and documentation. The Enterprise Architecture's determination is reviewed and validated by the Enterprise Architect and the FHFA Chief Information Officer, Deputy Chief Information Officer, and Chief Technology Officer.

The Chief Information Officer and the FISMA auditors validate certification and accreditation of information. In addition, the results of the quotient are reported to OMB on a quarterly basis in the FISMA Plan of Actions and Milestones Update.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

Performance GOAL 4.3

Maintain a strong internal control and risk management program.

MEASURE 4.3.1

Percent of FHFA's external audits or external reviews with an unqualified opinion and no material weaknesses, no unacceptable risks, or no findings on Human Capital audits.

TARGET:
100%



2009 PERFORMANCE

In FY 2009, all of FHFA's external audits and reviews had unqualified opinions with no material weaknesses.

MEASURE 4.3.2

Executive Committee on Internal Controls (ECIC) conducts review of FHFA's internal controls consistent with OMB guidance.

TARGET:
September 30, 2009



2009 PERFORMANCE

ECIC completed an OMB A-123 review of internal controls.

MEASURE 4.3.3

Establish and support FHFA Inspector General (IG).

TARGET:
July 29, 2009



2009 PERFORMANCE

An IG was not appointed by the President and confirmed by the Senate during FY 2009.

GOAL 4.3 ■ PRIOR YEAR PERFORMANCE

This goal has new measures for 2009.

Discussion of Performance Goal 4.3

To ensure that its resources are managed effectively and efficiently, FHFA continued to expand its use of financial and performance information in managing program operations in FY 2009.

FHFA integrated its budget and performance development and made program improvements. FHFA continued to maintain a strong internal control and risk management program. This included financial management, information security, and other management and operating processes. During the first quarter of FY 2009, external auditors completed financial statement audits and issued a clean audit opinion with no material weaknesses for OFHEO and FHFH for FY 2008. GAO performed a financial statements audit for FHFA in FY 2009.

Performance Results Key: Goal Fulfillment



Fully
Achieved



Substantially
Achieved



Not
Achieved

FHFA was also subject to a Delegated Examination Unit review in the third quarter of FY 2009 by OPM. No material weaknesses were identified.

During the year, the ECIC completed its OMB A-123 review of internal controls over financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. The ECIC established assessment teams that concluded with reasonable assurance that the agency had effective controls in place during FY 2009.

FHFA is unable to accomplish the measure to establish and support the FHFA IG until the President nominates and the Senate confirms a nominee. The OIG will also need a congressional appropriation. Upon appointment and confirmation of an FHFA IG, FHFA will provide its full support. President Bush nominated an individual for the IG position in late 2008, but the Senate did not act on that nomination. FHFA has communicated to the new administration, both directly and through the Federal Housing Finance Oversight Board, the need for a nominee to fulfill this statutory requirement.

FHFA established an Office of Internal Audit, which reports to the Office of the Director. The former FHFB IG is now the Associate Director for Internal Audit and, in that capacity, is carrying out audit functions until FHFA has an IG. In establishing an internal audit function, FHFA has done what it can to support the spirit and intent of supporting the OIG mission in the absence of an IG.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

The Chief Financial Officer confirms with the Office Director responsible for the area examined in the audit that no material weakness has been reported by the auditor.



Former Director James Lockhart accepts a Certificate of Excellence in Accountability Reporting award in 2009.

Performance GOAL 4.4

Ensure the continuity of FHFA's business functions.

MEASURE 4.4.1

Percentage of continuity of operations testing and after action reviews completed as outlined by Federal Continuity Directive 1 and 2.

TARGET:
100%



2009 PERFORMANCE

FHFA completed all of the testing requirements outlined by Federal Continuity Directives 1 and 2.

GOAL 4.4 ■ PRIOR YEAR PERFORMANCE

This is a new goal for 2009.

Discussion of Performance Goal 4.4




FHFA is committed to the good business practice of business continuity planning, ensuring that the agency can continue to perform its essential functions during an unplanned event that would prevent normal business operations.

In FY 2009, FHFA participated in multiple exercises including a tabletop exercise with agency managers, Federal Emergency Management Agency Ops Center communications tests, and the National Level Exercise: Eagle Horizon 2009. The Department of Homeland Security and the Federal Emergency Management Agency led Eagle Horizon 2009, which included all federal government agencies. Agency senior management actively participated in the Eagle Horizon 2009 test and deployed to an alternate operating facility. While at the alternate operating facility, the participants tested communications, completed annual continuity training/briefings, and conducted a tabletop exercise of possible continuity events. In addition to the testing, FHFA completed assessments of its continuity capabilities and pandemic plans.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency's performance tracking system, and reviewed by senior management quarterly.

After-action reports are the responsibility of the Continuity of Operations Manager. The Continuity Coordinator reviews the after-action reports, percentage calculation, and other performance information contained in the performance tracking report and approves the quarterly report before it is final.

Performance GOAL 4.5 <i>FHFA's internal operations effectively support the mission and goals of the agency.</i>		
MEASURE 4.5.1	The composite score from an annual employee customer survey that asks how well internal services and processes help employees get their job done.	TARGET: Establish baseline
	2009 PERFORMANCE FHFA successfully administered the annual employee customer survey and received a composite score of 43%, establishing a baseline of 43%.	
MEASURE 4.5.2	Get to "green" on the President's Management Agenda (PMA) initiatives status scores.	TARGET: Achieve a status score of "green" on 4 of 5 PMA initiatives
	2009 PERFORMANCE FHFA successfully achieved a status score of "green" on 4 of 5 PMA initiatives (Human Capital, Financial, Performance Improvement Initiative, and E Gov) during FY 2009.	
MEASURE 4.5.3	FHFA net costs per value of the 14 Housing Enterprise's total book of business.	TARGET: 0.002%
	2009 PERFORMANCE For FY 2009, FHFA net cost per value of the 14 housing regulated entities' total book of business is 0.0018%.	

GOAL 4.5 ■ PRIOR YEAR PERFORMANCE

This goal has new measures for 2009.

Discussion of Performance Goal 4.5

In FY 2009, the agency conducted its first annual customer service satisfaction survey to evaluate how well internal services and processes help employees complete work-related tasks. The survey assessed employee satisfaction with human resource staffing, procurement, travel, facilities services, and IT security and solicited their input for improvements. FHFA launched the agency-wide Customer Satisfaction Survey with a satisfaction-level composite score of 43 percent. The 43 percent satisfaction-level composite score was determined by averaging the favorable responses from the five questions in the survey. Favorable responses were defined as anyone who was Very Satisfied or Satisfied. On the basis of the results, a baseline of 43 percent was established. Not Applicable responses were treated as unfavorable responses. Survey results will be made available to all employees and will be used to evaluate and recommend improvement actions for that service. Moving forward, future surveys will continue to reflect results of those select key services in order to show the level of improvement over the baseline.

Performance Results Key: Goal Fulfillment

-  Fully Achieved
-  Substantially Achieved
-  Not Achieved

In FY 2009, FHFA voluntarily implemented the PMA, which focused on five key initiatives: Strategic Management of Human Capital, Commercial Services Management, E-Government, Improved Financial Performance, and Performance Improvement Initiative. Although OMB did not require FHFA to participate, the agency made improvements in its operations and processes based on the criteria established by OMB. FHFA scored the highest level of “green” on four out of five PMA initiatives: Strategic Management of Human Capital, E-government, Improved Financial Performance, and Performance Improvement Initiative.

As a measure of efficiency, the growth in FHFA costs does not exceed the growth in the combined size of the books of business for the 14 regulated entities.

Completeness and Reliability of Performance Data

The data for this performance goal are complete and reliable. The data are created internally, reported in the agency’s performance tracking system, and reviewed by senior management.

FHFA analysts calculate a composite score based on Web survey data and the Chief Financial Officer reviews the data and calculation before approving the quarterly performance report.

FHFA Financial Section





Message From The Chief Financial Officer

I am pleased to report that the Federal Housing Finance Agency (FHFA) has received an unqualified “clean” audit opinion from the Government Accountability Office (GAO) in FHFA’s first full year of operations. This accomplishment is particularly noteworthy in light of the tremendous amount of change that occurred during the year: The infrastructure for the new agency was developed and brought online and the operations of the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (FHFB) were wound down.

All of the personnel, property, and program activities of OFHEO and FHFB, and certain employees and activities from the Department of Housing and Urban Development, were transferred to FHFA during FY 2009. At the same time, FHFA worked on developing new accounting, personnel, and information technology systems to operationally unify the new agency. One significant achievement this past year was the successful development and transition to a new, single, integrated accounting system on July 1, 2009. This transition included the decision to outsource the agency’s accounting, travel, and charge card management services to an Office of Management and Budget approved service provider. Prior to July 1, 2009, FHFA had been using the legacy accounting systems and processes from OFHEO and FHFB.

Despite the operational challenges of creating a new agency, FHFA remained focused on maintaining a strong internal control environment that helped the agency receive an unqualified audit opinion on its initial financial statements. Senior management set the tone for the agency, continually reinforcing the need to maintain strong internal controls throughout the transition.

During the transition year, FHFA prepared a combined Performance and Accountability Report for FHFA, OFHEO, and FHFB, which received the Certificate for Excellence in Accountability Reporting (CEAR) award for FY 2008 from the Association of Government Accountants. This CEAR award is given for achieving the highest standard of federal fiscal accountability reporting.

I am very proud to work with a highly dedicated group of professionals whose efforts made it possible to successfully stand up the new agency while simultaneously maintaining effective controls over the agency’s financial systems and processes. I am confident that FHFA will continue its success in the years to come.

Sincerely,

A handwritten signature in blue ink that reads "Mark Kinsey". The signature is fluid and cursive, with the first name "Mark" and last name "Kinsey" clearly legible.

Mark Kinsey
Chief Financial Officer
November 10, 2009



Federal Housing Finance Agency

1700 G Street, N.W., Washington, D.C. 20552-0003

Telephone: (202) 414-3800

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www.fhfa.gov

October 28, 2009


Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2009


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

FHFA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2009 was operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

In addition, FHFA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2009 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

In accordance with the requirements of FMFIA, FHFA's financial management systems are substantially in compliance with the requirements for federal financial management systems as presented in A-127, Financial Management Systems as of September 30, 2009.


Edward J. DeMarco
Acting Director


Date



United States Government Accountability Office
Washington, D.C. 20548

To the Director of the Federal Housing Finance Agency

In accordance with the Housing and Economic Recovery Act of 2008 (HERA), we are responsible for conducting audits of the financial statements of the Federal Housing Finance Agency (FHFA). In our audit of FHFA's fiscal year 2009 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusions on Management's Discussion and Analysis; (3) our audit objectives, scope, and methodology; and (4) agency comments and our evaluation.

Opinion on Financial Statements

FHFA's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, its assets, liabilities, and net position as of September 30, 2009, and its net costs, changes in net position, and budgetary resources for the fiscal year then ended.

As discussed in note 1A of the financial statements, HERA¹ established FHFA on July 30, 2008, and charged it with the supervisory and regulatory oversight of Fannie Mae, Freddie Mac, and the 12 federal home loan banks. These responsibilities were previously assigned to the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB), and a mission group in the Department of Housing and Urban Development (HUD). HERA abolished OFHEO and FHFB effective no later than 1 year after enactment of the act, or by July 30, 2009. In accordance with HERA, during fiscal year 2009, personnel, property, and program activities of OFHEO and FHFB, and certain HUD employees and activities related to regulation of Fannie Mae and Freddie Mac, were

¹Pub. L. No. 110-289, 122 Stat. 2654 (July 30, 2008).

transferred to FHFA, with OFHEO and FHFB ceasing all activity in July 2009. The assets, liabilities, and financial transactions of OFHEO and FHFB were consolidated into FHFA during fiscal year 2009. Because fiscal year 2009 was the first full year of FHFA's operations, this is the first year in which FHFA prepared financial statements. Consequently, the financial statements do not present comparative information for the prior year.

As discussed in note 1A of the financial statements, FHFA's fiscal year 2009 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, the Director of FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA. As announced by the Director, 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. Shortly after Fannie Mae and Freddie Mac were placed in conservatorship, the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) determined that the finances of these entities would not be included in the financial statements of the federal government. In making this determination, OMB and Treasury reviewed the criteria contained in Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*. They concluded that because the entities were not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," and because the nature of the conservatorships and the federal government's ownership and control of the entities were considered to be temporary, the entities did not meet the conclusive or indicative criteria in Concept Statement No. 2 for consolidation. OMB and Treasury recently reaffirmed this conclusion with respect to fiscal year 2009. FHFA management concurs with this conclusion. Consequently, FHFA did not consolidate Fannie Mae and Freddie Mac into its fiscal year 2009 financial statements. Should circumstances change, such as the inclusion of Fannie Mae and Freddie Mac in the federal budget or a determination that the current degree of federal control and ownership of the entities is other than temporary, this decision would need to be revisited.

Opinion on Internal Control

FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and

corrected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

We identified certain deficiencies in FHFA's system of internal control that we consider not to be material weaknesses or significant deficiencies.² These deficiencies involve matters related to certain accounting and monitoring procedures, access controls, and information security management. We have communicated these matters to management and, where appropriate, will report on them separately.

Compliance with Laws and Regulations

Our tests of FHFA's compliance with selected provisions of laws and regulations for fiscal year 2009 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

FHFA's Management's Discussion and Analysis contains a wide range of information, some of which is not directly related to the financial statements. We did not audit and we do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with FHFA officials. On the basis of this limited work, we found no material inconsistencies in the financial statements with U.S. generally accepted accounting principles or OMB Circular No. A-136, Financial Reporting Requirements.

²A material weakness is a deficiency, or a combination of deficiencies, in internal control 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 significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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.

Objectives, Scope, and Methodology

FHFA management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness, and (3) complying with applicable laws and regulations. FHFA management evaluated the effectiveness of FHFA's internal control over financial reporting as of September 30, 2009, based on the criteria established under FMFIA. FHFA management's assertion is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) FHFA's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) FHFA management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and (2) performing limited procedures with respect to certain other information accompanying the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control over financial reporting;
- considered FHFA's process for evaluating and reporting on internal control over financial reporting that FHFA is required to perform by FMFIA;
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;

-
- evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
 - tested relevant internal control over financial reporting;
 - tested compliance with selected provisions of the following laws and their related regulations: 31 U.S.C. § 3902 (a), (b), (f) – Interest penalties under the Prompt Payment Act; 31 U.S.C. § 3904 – Limitations on Discount Payments Under the Prompt Payment Act; 5 U.S.C. § 5332 and 5343, and 29 U.S.C. § 206 – Pay and Allowance System for Civilian Employees; Federal Employees' Retirement System Act of 1986, as amended; Social Security Act of 1935, as amended; Federal Employees Health Benefits Act of 1959, as amended; and Housing and Economic Recovery Act of 2008; and
 - performed such other procedures as we considered necessary in the circumstances.

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 conformity 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 the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. 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.

We did not test compliance with all laws and regulations applicable to FHFA. We limited our tests of compliance to selected provisions of laws

and regulations that have a direct and material effect on the financial statements for the fiscal year ended September 30, 2009. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments

In commenting on a draft of this report, FHFA stated that it was pleased that the audit found that its fiscal year 2009 financial statements were presented fairly, that it maintained effective internal control over financial reporting, and that there had been no instances of reportable noncompliance with laws and regulations. FHFA noted the challenges it had faced during fiscal year 2009 in trying to stabilize the housing market in the midst of financial market turmoil while creating the new agency and establishing a new financial accounting system, policies, and controls, and noted that the unqualified audit opinion was testimony to the hard work and dedication of its management and staff in building a solid foundation for the agency. FHFA also noted that it would continue to work to enhance its internal controls and ensure the reliability of its financial reporting, its operational soundness, and public confidence in its mission.



Steven J. Sebastian
Director
Financial Management and Assurance

November 9, 2009

FEDERAL HOUSING FINANCE AGENCY

Balance Sheet

As of September 30, 2009

(in Thousands)

	2009
Assets	
Intragovernmental:	
Fund Balance With Treasury (Note 2)	\$ 29,076
Investments (Note 3)	37,668
Accounts Receivable (Note 4)	3
Total Intragovernmental	66,747
Accounts Receivable (Note 4)	3
General Property and Equipment, Net (Note 5)	3,273
Prepaid Expenses	1
Total Assets	\$ 70,024
Liabilities	
Intragovernmental:	
Accounts Payable	\$ 758
Payroll Taxes Payable (Note 7)	652
Total Intragovernmental	1,410
Accounts Payable	4,268
Deferred Revenue (Note 6)	35,122
Other (Note 7)	10,813
Total Liabilities	\$ 51,613
Net Position	
Cumulative Results of Operations	\$ 18,411
Total Net Position	\$ 18,411
Total Liabilities and Net Position	\$ 70,024

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

FEDERAL HOUSING FINANCE AGENCY

Statement of Net Cost

for the Year Ended September 30, 2009
(in Thousands)

	<u>2009</u>
Program Costs: (Note 10)	
Gross Costs	\$ 122,816
Less: Earned Revenue	115,709
	<u>7,107</u>
Net Program Costs	\$ 7,107
Net Cost of Operations	\$ 7,107

FEDERAL HOUSING FINANCE AGENCY

Statement of Changes in Net Position

for the Year Ended September 30, 2009

(in Thousands)

	<u>2009</u>
Cumulative Results of Operations:	
Beginning Balances	\$ 9,544
Budgetary Financing Sources:	
Appropriations Used	12,896
Other Financing Sources (Non-Exchange):	
Imputed Financing Sources	3,078
Total Financing Sources	<u>15,974</u>
Net Cost of Operations	<u>7,107</u>
Net Change	<u>8,867</u>
Cumulative Results of Operations	\$ <u>18,411</u>
Unexpended Appropriations:	
Beginning Balances	\$ 12,896
Budgetary Financing Sources:	
Appropriations Used	12,896
Total Budgetary Financing Sources	<u>12,896</u>
Total Unexpended Appropriations	\$ <u>-</u>
Net Position	\$ <u><u>18,411</u></u>

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

FEDERAL HOUSING FINANCE AGENCY

Statement of Budgetary Resources

for the Year Ended September 30, 2009

(in Thousands)

	2009
	<hr/>
Budgetary Resources:	
Unobligated Balance:	
Unobligated Balance Brought Forward, October 1	\$ 5,132
Recoveries of Prior Year Unpaid Obligations	6,002
Budget Authority	
Appropriation - Assessments	115,669
Appropriation - Investment Interest	30
Spending Authority From Offsetting Collections	
Earned	
Collected	4,572
Change In Receivables From Federal Sources	(1,459)
Change In Unfilled Customer Orders	
Without Advance From Federal Sources	(4,038)
Subtotal	<hr/> 114,774
Total Budgetary Resources	\$ 125,908
Status of Budgetary Resources:	
Obligations Incurred	
Direct	\$ 111,682
Reimbursable	4,569
Subtotal	<hr/> 116,251
Unobligated Balance	
Exempt From Apportionment	9,657
Total Status of Budgetary Resources	\$ 125,908
Change in Obligated Balance:	
Obligated Balance, Net	
Unpaid Obligations, Brought Forward, October 1	29,146
Less: Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	5,500
Total Unpaid Obligated Balance, Net	23,646
Obligations Incurred Net	116,251
Less: Gross Outlays	117,427
Less: Recoveries of Prior Year Unpaid Obligations, Actual	6,002
Change In Uncollected Customer Payments From Federal Sources	5,497
Obligated Balance, Net, End of Period	
Unpaid obligations	21,968
Less: Uncollected Customer Payments From Federal Sources	3
Total, Unpaid Obligated Balance, Net, End of Period	\$ 21,965
Net Outlays:	
Net Outlays:	
Gross Outlays	\$ 117,427
Less: Offsetting Collections	4,572
Less: Distributed Offsetting Receipts	115,699
Net Outlays	\$ (2,844)

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

FEDERAL HOUSING FINANCE AGENCY**Notes to the Financial Statements****NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Reporting Entity**

The Federal Housing Finance Agency was established on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). FHFA is an independent agency in the Executive branch empowered with supervisory and regulatory oversight of the 12 Federal Home Loan Banks, Fannie Mae, and Freddie Mac (Regulated Entities). FHFA is responsible for ensuring that each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls, and carries out their housing and community development finance missions. FHFA had minimal activity during the agency's two months of existence in fiscal year 2008.

HERA abolished the Federal Housing Finance Board (FHFB) and Office of Federal Housing Enterprise Oversight (OFHEO) effective at the end of the 1-year period beginning on July 30, 2008. FHFB and OFHEO existed until then solely for the purpose of winding up their affairs. During fiscal year 2009, in accordance with HERA, the transfer of personnel, property, and program activities of FHFB, OFHEO, and certain employees and activities of the Department of Housing and Urban Development related to the regulation of the mission of Fannie Mae and Freddie Mac were made to FHFA.

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

In September 2008, after Fannie Mae and Freddie Mac were placed in conservatorship under the FHFA, the Office of Management and Budget determined that the finances of the companies would not be included in financial statements of the federal government. For fiscal year 2008, the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) concluded that Fannie Mae and Freddie Mac did not meet the conclusive or indicative criteria for a federal entity contained in OMB Circular A-136 and Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display* because they are not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," and because the nature of FHFA's conservatorships over Fannie Mae and Freddie Mac and the federal government's ownership and control of the entities is considered to be temporary. Treasury reaffirmed this position for fiscal year 2009, with which FHFA concurs. Consequently, the assets and liabilities of Fannie Mae and Freddie Mac have not been consolidated into FHFA's financial statements.

Both Fannie Mae and Freddie Mac, as represented by FHFA as their Conservator, entered into separate agreements with Treasury known as the Senior Preferred Stock Purchase Agreements (Agreements) on September 7, 2008. These two Agreements are identical and have since been amended twice, on September 26, 2008 and May 6, 2009. The Agreements provide for each Enterprise to draw up to \$200 billion from Treasury to ensure that they maintain a non-negative Net Worth, thereby avoiding a statutory requirement that an Enterprise be put in receivership following an extended period of negative Net Worth. Under the Agreements, each Enterprise submits a request for any needed draw amount once their financials (to be published in their 10-K or 10-Q) are finalized. The Enterprise also submits a statement certifying compliance with Agreement covenants, which include limits on portfolio size and indebtedness. FHFA, in its role as Conservator, reviews the request for a draw and certifies that the request is within the available amount remaining under the limit contained in the Agreement. FHFA then sends a letter to Treasury requesting the draw amount prior to the end of the current quarter. FHFA as Conservator also issues an order to the Enterprises each quarter requiring each Enterprise to pay dividends to Treasury as required by the Agreements. Additionally, the Agreements require each Enterprise to obtain Treasury approval for the disposition of assets, except under certain circumstances. FHFA as Conservator reviews these requests. Fannie Mae and Freddie Mac draws on their Agreements with Treasury are summarized below (dollars in billions).

Senior Preferred Draws	Fannie Mae	Freddie Mac
September 30, 2008	\$ 0.0	\$ 13.8
December 31, 2008	15.2	30.8
March 31, 2009	19.0	6.1
June 30, 2009	10.7	0.0
Cumulative Draws	\$ 44.9	\$ 50.7

B. Basis of Presentation

FHFA's principal statements were prepared from its official financial records and general ledger in conformity with accounting principles generally accepted in the United States and follow the presentation guidance established by the Office of Management and Budget (OMB) Circular A-136 "Financial Reporting Requirements," revised June 10, 2009. The statements are a requirement of the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002, and HERA. These financial statements are in addition to the financial reports prepared by FHFA, pursuant to OMB directives, which are used to monitor and control budgetary resources. As required by HERA, the financial statements of FHFA are audited by the U.S. Government Accountability Office (GAO). The financial statements and associated notes for FHFA for fiscal year 2009 will not be comparative, as this is the agency's first full fiscal year of existence. The balance sheet, statement of net cost, and statement of changes in net position are consolidated statements, whereas the statement of budgetary resources is a combined statement. The statements include consolidated and combined balances for FHFA, FHFB, and OFHEO. Financial transactions were captured in the legacy FHFB and OFHEO systems until the conversion to one system was complete on July 1, 2009. Unless specified otherwise, all amounts are presented in thousands.

C. Basis of Accounting

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

D. Revenues, Imputed & Other Financing Sources

Operating revenues of FHFA are obtained through assessments of the regulated entities. The agency's Director, in September 2008 approved the annual budget. 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 Director to be necessary for maintaining a working capital fund.

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

Fannie Mae and Freddie Mac pay a pro rata share of their portion of the total assessment based on the combined assets and off-balance sheet obligations of each enterprise. Each Federal Home Loan Bank's share of their portion of the total assessment is based on the dollar value of its capital stock relative to the combined dollar value of all Federal Home Loan Banks' capital stock. Assessment letters are sent to the entities 30 days prior to the assessment due dates of October 1st and April 1st. Assessments received prior to due dates are available for investment but are unavailable for obligation. These assessments are recorded as deferred revenue.

Federal government entities often receive goods and services from other federal government entities without reimbursing the providing entity for all the related costs. In addition, federal government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FHFA recognized imputed costs and financing sources in fiscal year 2009 as prescribed by accounting standards. FHFA recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees accrued on FHFA's behalf by the Office of Personnel Management (OPM).

E. Use of Estimates

The preparation of the accompanying financial statements in accordance with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

F. Earmarked Funds

FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 27 "Identifying and Reporting Earmarked Funds" established certain disclosure requirements for funds defined as "earmarked." SFFAS No. 27 states that "(e)armarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues." The standard also presents three required criteria for an earmarked fund. Based on the standard's criteria, FHFA determined that it has no earmarked funds.

G. Fund Balance with Treasury

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

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

The Housing and Economic Recovery Act of 2008 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 will be evaluated annually.

H. Investments

FHFA has the authority to invest in U.S. Treasury securities with maturities suitable to FHFA's needs. FHFA invests solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues.

I. Accounts Receivable

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

J. Property and Equipment, Net

Pursuant to HERA legislation, all Property and Equipment of FHFB and OFHEO were transferred to FHFA at the existing net book value of those assets. Net book value was determined by the capitalization policies in effect at the legacy agencies.

Property and Equipment is recorded at historical cost. It consists of tangible assets and software. As of May 2009, FHFA has adopted a property management policy. Under FHFA's property management policy, equipment acquisitions greater than or equal to \$25 thousand are capitalized and depreciated using the straight-line method over the estimated useful life of the asset. Additionally, for bulk purchases of similar items, which individually do not meet the test for capitalization, the acquisition is capitalized and depreciated if the depreciated basis of the bulk purchase is \$250 thousand or more. 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, Fixtures, and Equipment	3
Automated Filing Storage Systems	15
Internal Use Software	3

A leasehold improvement's useful life is equal to the remaining lease term or the estimated useful life of the improvement, whichever is shorter. FHFA has no real property holdings or stewardship or heritage assets. Other property items, normal repairs and maintenance are charged to expense as incurred.

K. 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 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.

L. Liabilities

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

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

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, deferred rent, and the amounts due to Treasury for collection and accounts receivable of civil penalties and FOIA request fees. Annual leave is earned throughout the fiscal year and is paid when leave is taken by the employee; the accrued liability for annual leave represents the balance earned but not yet taken. The Department of Labor (DOL) is the central paying agent for all workman compensation claims filed under the Federal Employees Compensation Act (FECA). Accrued FECA represents the amount FHFA is to reimburse DOL for claims paid to FHFA employees. No liability is recorded for future workman compensation as of September 30, 2009, as FHFA's methodology for estimating the future workman compensation as prescribed by DOL determined that the liability would be negligible. 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. This determination and recording of deferred rent is applicable only to the lease agreement on the property at 1750 Pennsylvania Avenue that commenced in 2005 (See Note 8. Leases).

M. Employee Leave and Benefits

FHFA employees are entitled to accrue annual leave and sick leave at a rate based on years of federal service. For most employees, annual leave may be accrued up to 240 hours each year. The FHFA executive employees equivalent to the Senior Executive Service (SES) employees may accrue annual leave consistent with the rules for SES level employees. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to the employee upon leaving federal service, based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon separation, any unused sick leave of Civil Service Retirement System (CSRS) plan employees is creditable as additional time in service for the purpose of calculating an employee's retirement annuity. For Federal Employees Retirement System (FERS) plan employees, unused sick leave is held indefinitely and may be used if rehired.

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

N. Retirement Plans

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS or FERS. The employees who participate in CSRS are beneficiaries of FHFA's contribution, equal to 7% of pay, distributed to the employee's annuity account in the Civil Service Retirement and Disability Fund. FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 elected to join either FERS and Social Security or remain in CSRS. FERS offers a Thrift Savings Plan to which FHFA automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For FERS participants, FHFA also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, FHFA remits the employer's share of the required contribution, which is 11.2% for FERS and 7% for CSRS.

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

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

FHFA's 401(K) is administered by T. Rowe Price. Eligible employees that participate may contribute up to 10% of salary on a pre-tax basis while FHFA will match contributions up to 3% of the employee's salary. Qualified employees may participate in the Federal Thrift Savings Plan and/or FHFA's 401(K) Savings Plan, up to the Internal Revenue Code limitations established for salary deferral and annual additions.

O. Contingencies

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

NOTE 2 • FUND BALANCE WITH TREASURY

Fund Balance with Treasury consists of an Operating Fund and a Working Capital Fund. FHFA did not use the funds in the Working Capital Fund during fiscal year 2009. Fund Balance with Treasury (FBWT) account balances as of September 30, 2009 were as follows:

	2009 (In Thousands)
Fund Balances:	
Operating Fund	\$ 26,076
Working Capital Fund	3,000
	<hr/>
Total	\$ 29,076
	<hr/> <hr/>
Status of Fund Balance with Treasury:	
Unobligated Balance	
Available	\$ 9,657
Unavailable – Deferred Revenue (See Note. 6)	35,122
	<hr/>
Total Unobligated Balance	44,779
Obligated Balance Not Yet Disbursed	21,968
Investments	(37,668)
Uncollected Customer Payment Earned	(3)
	<hr/>
Total	\$ 29,076
	<hr/> <hr/>

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

NOTE 3 • INVESTMENTS

Intragovernmental Securities

As of September 30, 2009
(In Thousands)

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosure
Non-Marketable						
Market Based	\$37,668	-	-	\$37,668	-	\$37,668

FHFA is currently investing in one-day certificates issued by the U.S. Treasury. There were no amortized premiums/discounts or interest receivable on investments as of September 30, 2009. Interest earned on investments was \$30 thousand for fiscal year 2009.

NOTE 4 • ACCOUNTS RECEIVABLE

Accounts Receivable balances as of September 30, 2009 were as follows:

	2009 (In Thousands)
Accounts Receivable due from the Public	\$ 3
Intragovernmental Receivables	3
Total Accounts Receivable	<u>\$ 6</u>

As of September 30, 2009 there are no amounts that are deemed uncollectible.

NOTE 5 • GENERAL PROPERTY AND EQUIPMENT

Property and equipment account balances as of September 30, 2009 were as follows:

Schedule of Property and Equipment as of September 30, 2009 (In Thousands)

Description	Acquisition Cost	Accumulated Depreciation	Book Value
Equipment	\$ 10,303	\$ 9,526	\$ 777
Leasehold Improvements	6,881	6,270	611
Capital Lease	22	22	-
Internal-Use Software	29,093	27,280	1,813
Internal-Use Software In Development	61	-	61
Construction in Progress	11	-	11
Total	<u>\$ 46,371</u>	<u>\$ 43,098</u>	<u>\$ 3,273</u>

NOTE 6 • DEFERRED REVENUE

Deferred revenue consists of \$35.1 million classified as with the public for assessments received from the regulated entities prior to the due date of October 1st. These assessments are available for investment but unavailable for obligation. (See Note. 2 Fund Balance With Treasury)

NOTE 7 • OTHER LIABILITIES

The other liabilities for FHFA are comprised of payroll accruals, deferred rent and unfunded leave. Payroll accruals represent payroll expenses that were incurred prior to month-end but were not paid. Other liabilities not covered by budgetary resources consist of unfunded annual leave which also includes compensation time and deferred rent for a total of \$7.4 million. FHFA's other liabilities are classified as current.

	2009 (In Thousands)
Intragovernmental	
Payroll Taxes Payable	\$ 652
Total Intragovernmental	\$ 652
With the Public	
Accrued Payroll	\$ 3,417
Annual Leave	7,256
Deferred Rent	140
Total Public	\$ 10,813

NOTE 8 • LEASES

Operating Leases

1700 G Street NW

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

FHFA may terminate the lease agreement with OTS in whole or in part. In the event of termination at FHFA's discretion, FHFA would be required to pay two months' rent. If either party ceases to exist or merges with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fee, damages or other monies due to the termination, except for payments through the date of the termination. Because of this termination clause, no deferred rent is established for this lease, nor is disclosure of minimum future lease payments required under Financial Accounting Standards Board Statement No. 13.

1750 Pennsylvania Avenue NW and 1625 Eye Street

FHFA leases office space in Washington, DC at 1750 Pennsylvania Avenue NW and 1625 Eye Street NW. The lease terms of 1750 Pennsylvania Avenue NW expire on March 20, 2011. The lease terms of 1625 Eye Street expire on June 30, 2015. Contingency space at an undisclosed location is also leased, with the lease expiring on October 31, 2009. Total rental payments for the fiscal year ended September 30, 2009 were \$4.78 million. The minimum future payments for these leases are as follows:

Fiscal Year	Amount (In Thousands)
2010	\$ 4,467
2011	4,107
2012	3,674
2013	3,748
2014	3,823
Thereafter	2,910
Total	\$ 22,729

NOTE 9 • COMMITMENTS AND CONTINGENCIES

FHFA does not have any material commitments or contingencies that meet disclosure requirements as of September 30, 2009.

NOTE 10 • PROGRAM COSTS

Pursuant to the Housing and Economic Recovery Act of 2008, FHFA was established to supervise and regulate the 14 regulated entities. The regulated entities include Freddie Mac, Fannie Mae and the 12 Federal Home Loan Banks. FHFA's Program Costs are reflected as one program as defined by HERA Section 1311(b)(1). Fiscal year 2009 resource allocation estimates and actual costs were not tracked by strategic goal due to the priority placed on integrating staff from three agencies; integrating and developing administrative and infrastructure and systems; and establishing a new strategic plan, goals, and objectives. Beginning in fiscal year 2010, FHFA will track resource allocations to the strategic goals developed for FHFA's new strategic plan, which was published in the last quarter of fiscal year 2009.

Program costs are distributed into two categories: Intragovernmental and With the Public. Intragovernmental costs are a result of FHFA contracting with other federal agencies for goods and/or services, such as rent paid to OTS, payroll processing services received from the Department of Agriculture and imputed financing costs for post-retirement benefits with the Office of Personnel Management. With the Public costs include expenditures for contracts with the private sector for goods or services, payments for employee salaries, depreciation, annual leave and deferred rent expenses. Revenue is comprised of semi-annual assessments, investment interest, and miscellaneous revenue. Intragovernmental expenses relate to the source of goods and services purchased by the agency and not to the classification of related revenue. The costs and revenues for the year ended September 30, 2009 were:

	2009 (In Thousands)
Costs:	
Intragovernmental	\$ 24,048
With the Public	98,768
	<hr/>
Gross Costs	122,816
Less Earned Revenue:	
Assessment Revenue	115,669
Interest Revenue	30
Miscellaneous Revenue	10
	<hr/>
Total Revenue	115,709
	<hr/>
Net Program Costs	<u>\$ 7,107</u>

NOTE 11 • APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

All obligations incurred are characterized as Exempt from apportionment (i.e. not apportioned) on the Statement of Budgetary Resources. Obligations incurred for the year ended September 30, 2009 are:

	2009 (In Thousands)
Direct Obligations – Exempt from Apportionment	\$ 111,682
Reimbursable Obligations- Exempt from Apportionment	4,569
	<hr/>
Total Obligations – Exempt from Apportionment	<u>\$ 116,251</u>

NOTE 12 • LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

HERA requires that any balance that remains unobligated at the end of the fiscal year, except for amounts assessed for contribution to FHFA's working capital fund, must be credited against the next year's assessment to the regulated entities. As of September 30, 2009, the unobligated balance was \$44.8 million, of which \$35.1 million is deferred revenue which is unavailable. The unobligated available balance of \$9.7 million will be credited against the regulated entities' April assessments. (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). However, the President's Budget that will include fiscal year 09 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2010 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb>.

With FHFA being established on July 30, 2008 and FHFB and OFHEO operating as separate agencies for 10 months of the fiscal year, separate financial statements were prepared for FHFB and OFHEO in fiscal year 2008. FHFA had minimal activity during fiscal year 2008 and therefore, did not prepare a Statement of Budgetary Resources or other required financial statements. As a result, the reconciliation of the 2010 Budget of the United States Government, with the Actual column completed for 2008, to the Statement of Budgetary Resources for fiscal year 2008 has not been performed.

NOTE 14 • UNDELIVERED ORDERS AT THE END OF THE PERIOD

Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting", states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the fiscal year ended September 30, 2009 undelivered orders amounted to \$12.87 million.

NOTE 15 • CUSTODIAL REVENUES

FHFA's custodial collections primarily consist of Freedom of Information Act requests and civil penalties assessed. While these collections are considered custodial, they are neither primary to the mission of the agency nor material to the overall financial statements. FHFA also collects civil penalties assessed against the regulated entities. A penalty was collected in the amount of \$500 thousand from a former executive of Fannie Mae. FHFA's total custodial collections were \$500 thousand for the year ended September 30, 2009, all of which were transferred to the Treasury General Fund on September 30, 2009.

NOTE 16 • RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

FHFA has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2009 (In Thousands)
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	\$ 116,251
Less: Spending Authority From Offsetting Collections and Recoveries	5,077
	<hr/>
Obligations Net of Offsetting Collections and Recoveries	111,174
Less: Offsetting Receipts	115,699
	<hr/>
Net Obligations	(4,525)
	<hr/>
Other Resources	
Imputed Financing From Costs Absorbed by Others	3,078
Total Resources Used to Finance Activities	(1,447)
	<hr/>
Resources Used to Finance Items Not Part of the Net Cost of Operations	
Change in Budgetary Resources Obligated for Goods, Services and Benefits	
Ordered But Not Yet Provided	(2,524)
Resources That Fund Expenses Recognized In Prior Periods	46
Resources That Finance the Acquisition of Assets	974
	<hr/>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(1,504)
	<hr/>
Total Resources Used to Finance the Net Cost of Operations	\$ 57
	<hr/>
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	
Components Requiring or Generating Resources In Future Periods	
Increase In Annual Leave Liability	3,349
	<hr/>
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods	3,349
	<hr/>
Components Not Requiring or Generating Resources:	
Depreciation and Amortization	3,697
Revaluation of Assets and Liabilities	4
	<hr/>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	\$ 3,701
	<hr/>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	7,050
	<hr/>
Net Cost of Operations	\$ 7,107
	<hr/> <hr/>

Appendix



Glossary

Alt-A Mortgage – Generally a loan with less than standard documentation, especially of borrower income or assets, but sometimes also includes loans with credit defects or other deviations from standard underwriting standards.

Conservatorship – Statutory process designed to stabilize troubled institutions with the objective of maintaining normal business operations and restore their safety and soundness.

Deed in Lieu – The borrower gives the deed (property ownership) to the servicer to fulfill his/her obligation to repay the debt. In exchange for delivering the deed, the borrower avoids a deficiency judgment.

Enterprise – Fannie Mae or Freddie Mac.

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

GAAP Net Worth – The amount by which a company's assets exceed its liabilities as determined by generally accepted accounting principles (GAAP).

Golden Parachute Payment – Payment to an executive leaving a company based on an agreement that guarantees lucrative severance benefits if control of the company changes hands.

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

Portfolio – A collection of investments, either diverse or similar in nature, held by an institution or individual

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

Serious Delinquency – A mortgage that has not received any payments in 90 days.

Short Sale – A sale of real estate in which the sale proceeds do not satisfy the full balance owed on the property's loan.

Subprime Mortgage – A mortgage made to a borrower with impaired credit.

Acronyms

CSRS – Civil Service Retirement System

DER – Division of Enterprise Regulation

DOL – Department of Labor

ECIC – Executive Committee on Internal Controls

EESA – Emergency Economic Stabilization Act of 2008

Fannie Mae – Federal National Mortgage Association

FASAB – Federal Accounting Standards Advisory Board

FBWT – Fund Balance with Treasury

FDIC – Federal Deposit Insurance Corporation

FECA – Federal Employees Compensation Act

FERS – Federal Employees Retirement System

FHA – Federal Housing Administration

FHFA – Federal Housing Finance Agency

FHFB – Federal Housing Finance Board

FHLBank – Federal Home Loan Bank

FinCEN – Financial Crimes Enforcement Network

FISMA – Financial Information Security Management Act

FMFIA – Federal Managers Financial Integrity Act of 1982

FOIA – Freedom of Information Act

Freddie Mac – Federal Home Loan Mortgage Corporation

FSOB – Financial Stability Oversight Board

FY – fiscal year

GAAP – generally accepted accounting principles

GAO – U.S. Government Accountability Office

GSE – government-sponsored enterprise

HAMP – Home Affordable Modification Program

HARP – Home Affordable Refinance Program

HERA – Housing and Economic Recovery Act of 2008

HPI – house price index

HUD – Department of Housing and Urban Development

IG – Inspector General

IT – information technology

MBS – mortgage-backed securities

MHA – Making Home Affordable (program)

MRA – matter requiring attention

NPV – net present value

OFHEO – Office of Federal Housing Enterprise Oversight

OIG – Office of the Inspector General

OMB – Office of Management and Budget

OPM – Office of Personnel Management

OTIM – Office of Technology and Information Management

OTS – Office of Thrift Supervision

OTTI – other than temporary impairment

PLMBS – private-label mortgage-backed securities

PMA – Presidential Management Agenda

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