FISCAL YEAR 2015

FEDERAL HOUSING FINANCE AGENCY

Performance and Accountability Report

LIST OF ABBREVIATIONS

AHP	Affordable Housing Program
AMA	Acquired Member Assets
AMI	Area Median Income
APP	Annual Performance Plan
CEAR	Certificate for Excellence in Accountability Reporting
CEO	Chief Executive Officer
CIP	Community Investment Program
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
DBR	Division of FHLBank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DOC	Division of Conservatorship
EEO	Equal Employment Opportunity
Fannie Mae	Federal National Mortgage Association
FECA	Federal Employees' Compensation Act
FHFA	Federal Housing Finance Agency
FISMA	Financial Information Security Management Act of 2002
Freddie Mac	Federal Home Loan Mortgage Corporation
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
HPI	House Price Index
HRIS	Human Resources Information System
LLC	Limited Liability Company
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MRA	Matters Requiring Attention
MVE	Market Value of Equity
NIST	National Institute of Standards and Technology
NPL	Non-Performing Loan
NSI	Neighborhood Stabilization Initiative
OGC	Office of General Counsel
OIG	Office of Inspector General
OMWI	Office of Minority and Women Inclusion
PAR	Performance and Accountability Report
PCs	Participation Certificates
PLS	Private-Label Mortgage-Backed Securities
PMIERs	Private Mortgage Insurer Eligibility Requirements
PSPA(s)	Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
REO	Real Estate Owned
UPB	Unpaid Principal Balance

FHFA'S MISSION, VISION, AND VALUES

Mission

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

Vision

Establish a reliable, stable, and liquid housing finance system.

Values

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

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

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

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

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Melvin L. Watt

MESSAGE FROM THE DIRECTOR

I am pleased to issue the Federal Housing Finance Agency's (FHFA) Performance and Accountability Report for fiscal year 2015. FHFA was established by the Housing and Economic Recovery Act of 2008 and is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System, which includes 11 Federal Home Loan Banks and the Office of Finance. The Agency's mission is to ensure that these regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac.

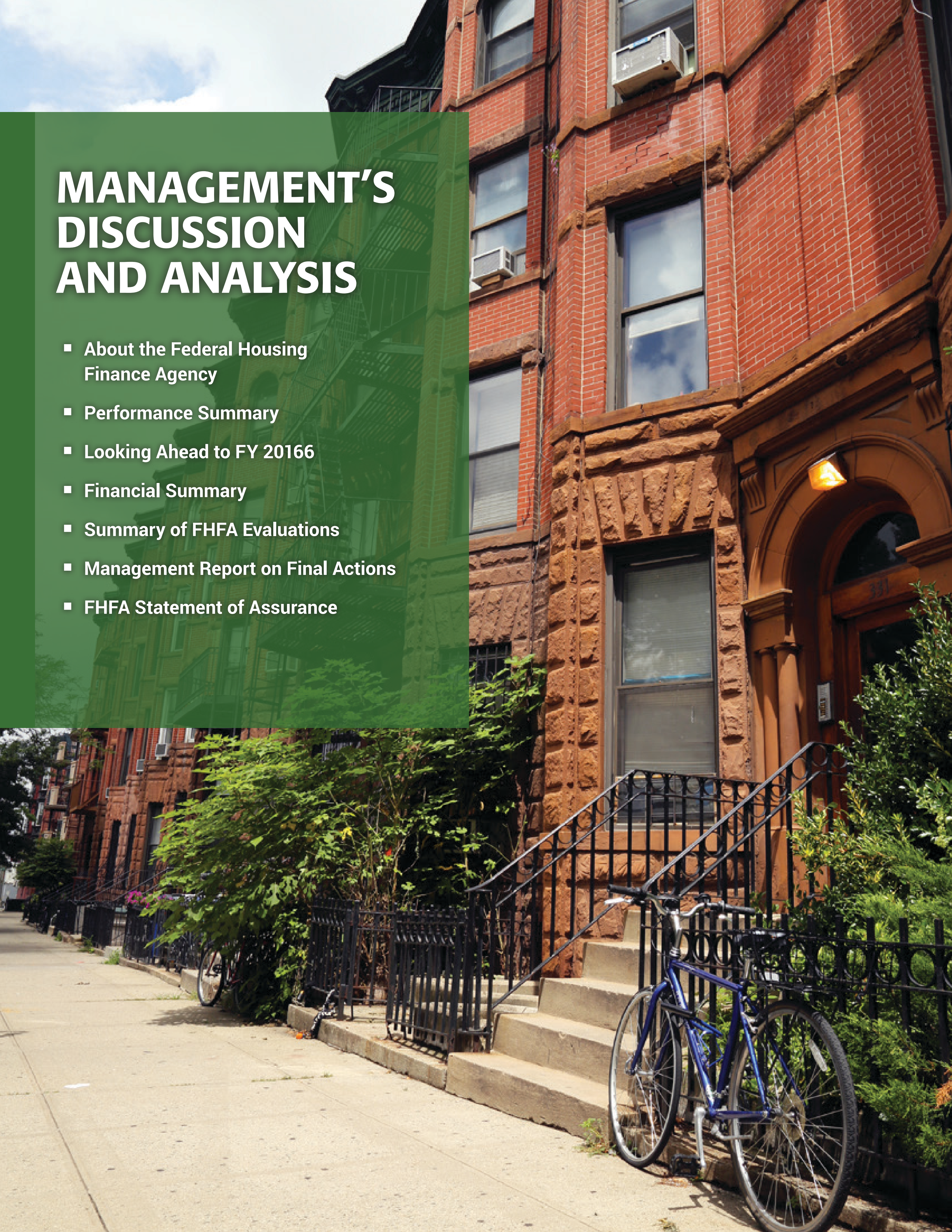
This report addresses FHFA's activities as regulator of the Federal Home Loan Bank System and as regulator and conservator of Fannie Mae and Freddie Mac from October 1, 2014 through September 30, 2015 and meets the requirements of the Government Performance and Results Modernization Act of 2010.

The report also provides the fiscal year 2015 financial statements and analysis for FHFA. For the seventh consecutive year, FHFA received an unmodified (clean) audit opinion on its financial statements from the U.S. Government Accountability Office. FHFA has no material internal control weaknesses and the financial and performance data contained in this report are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

Sincerely,

Melvin L. Watt
Director, Federal Housing Finance Agency
November 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS



ABOUT THE FEDERAL HOUSING FINANCE AGENCY

Background on FHFA's Statutory Obligations

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System, which includes the 11 Federal Home Loan Banks (FHLBanks)[1] and the Office of Finance. The Agency's mission is to ensure that these regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac.

FHFA's Regulatory Oversight of the Federal Home Loan Bank System, Fannie Mae and Freddie Mac. As part of the Agency's statutory authority in overseeing the FHLBank System and Fannie Mae and Freddie Mac (the Enterprises), the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the Safety and Soundness Act) as amended by HERA, requires FHFA to fulfill the following duties:

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

"(B) to ensure that--

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

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

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

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

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

12 U.S.C. § 4513(a)(1).

FHFA's Role as Conservator of Fannie Mae and Freddie Mac. As part of the Safety and Soundness Act, Congress granted the Director of FHFA the discretionary authority to appoint FHFA as conservator or receiver of Fannie Mae, Freddie Mac, or any of the FHLBanks upon determining that specified criteria had been met. On September 6, 2008, FHFA exercised this authority and placed Fannie Mae and Freddie Mac into conservatorships. FHFA continues to oversee these conservatorships.

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

"(D) …take such action as may be--

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

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

12 U.S.C. § 4617(b)(2)(D).

Carrying on the business of the Enterprises in conservatorships also incorporates the previously

1 At the start of 2015 there were 12 FHLBanks, and there are now 11. The FHLBank of Seattle entered into a voluntary merger with the FHLBank of Des Moines in May 2015.

referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1). Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to:

> "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of…available programs to minimize foreclosures."
>
> 12 U.S.C. § 5220(b)(1).

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

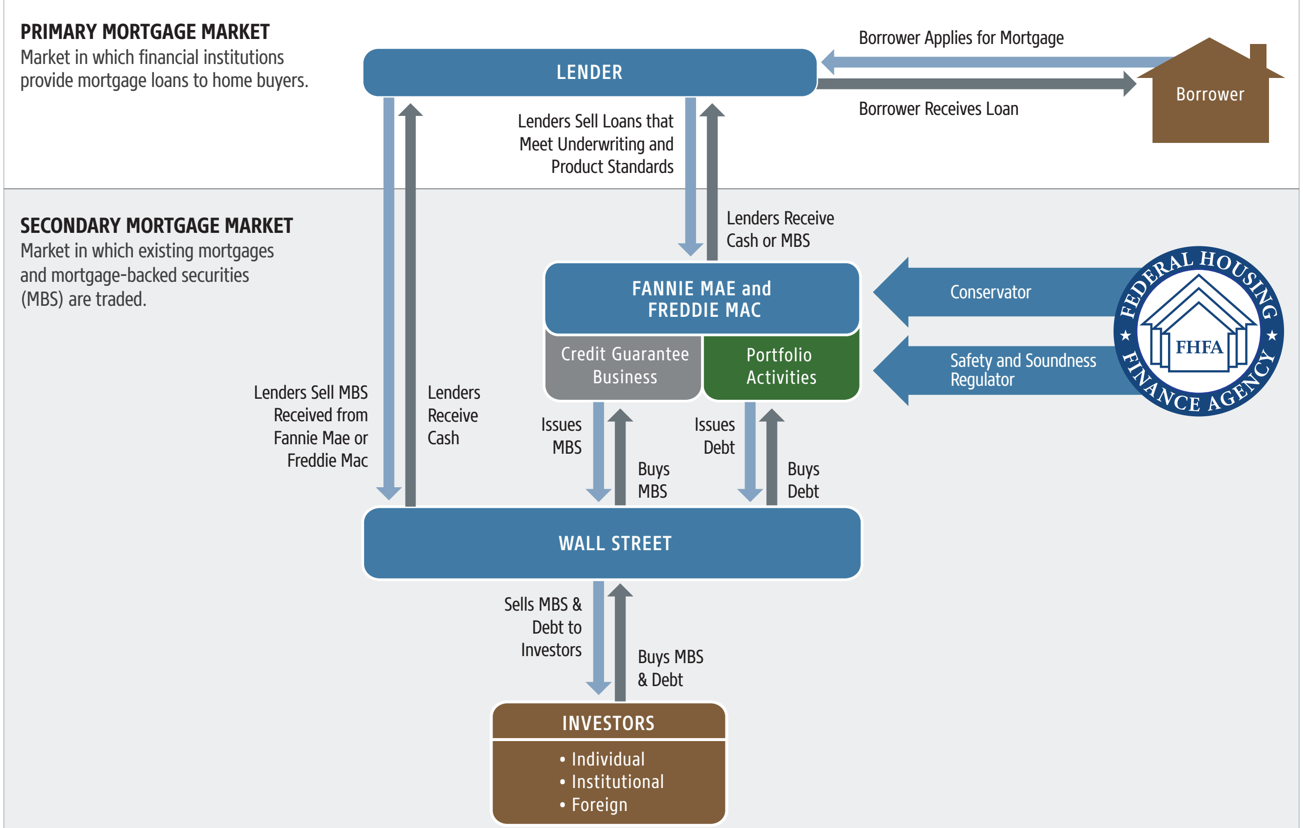
Background on the Regulated Entities

The Enterprises

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

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

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



Did You Know...

The Enterprises purchased nearly $818 billion in single-family mortgages in FY 2015, accounting for about 48 percent of single-family mortgage originations during this period.

FHLBanks

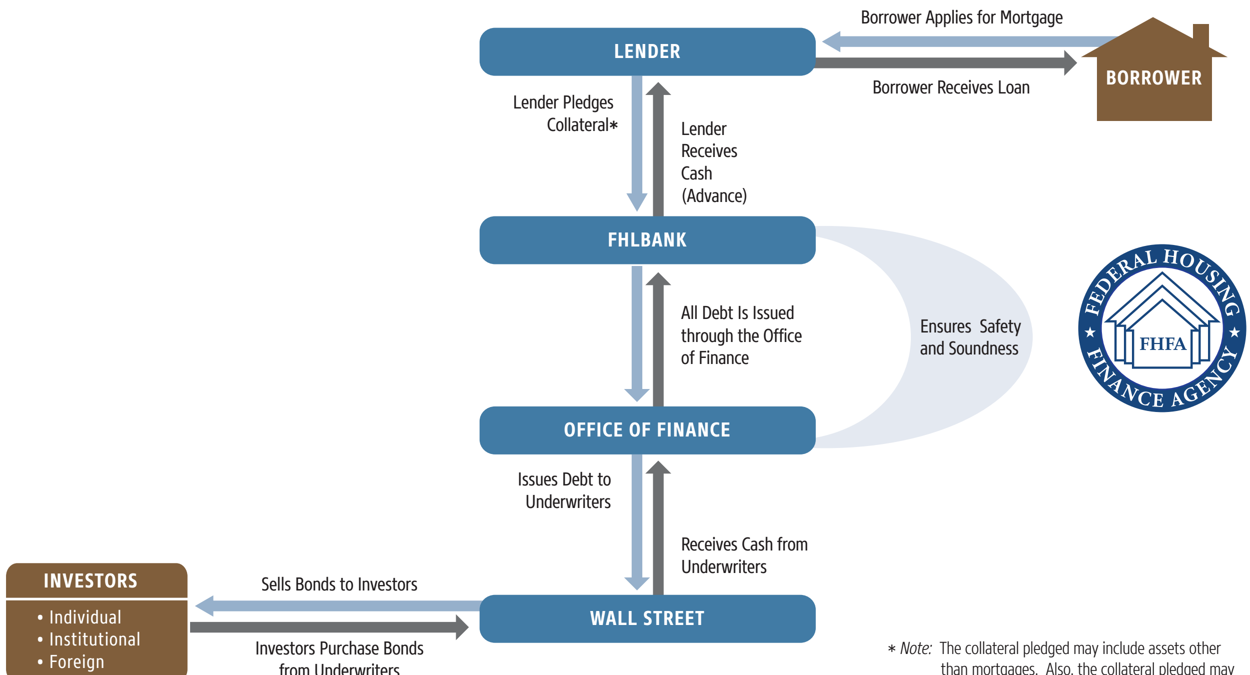
Congress passed the Federal Home Loan Bank Act in 1932 to establish the Federal Home Loan Bank System and reinvigorate a housing market devastated by the Great Depression. The System includes 11 district FHLBanks, each serving a designated geographic area of the United States, and the Office of Finance, which issues consolidated obligations to fund the FHLBanks. The FHLBanks are member-owned cooperatives and provide a source of liquidity to member financial institutions. FHLBanks make loans, known as advances, to member institutions (see Figure 2). These advances increase the availability of credit for residential mortgages. At the end of FY 2015, there were 7,257 active FHLBank members made up of commercial banks, thrifts, credit unions, insurance firms and community development financial institutions.

Organization

FHFA is an independent government agency with a workforce that includes highly skilled examiners, economists, financial and policy analysts, attorneys, and subject matter experts in banking, insurance, technology, accounting, and legal matters.

During FY 2015, the Agency operated with a budget of $199.7 million and ended the fiscal year with 554 employees. During this same period, the Office of the

FIGURE 2: FHFA Oversight Role - FHLBanks



* *Note:* The collateral pledged may include assets other than mortgages. Also, the collateral pledged may be loans originated well in the past.

Did You Know…

The FHLBank of Seattle and the FHLBank of Des Moines merged on May 31, 2015. This was the first voluntary merger in System history.

Inspector General (OIG) operated with a budget of $48.0 million and ended the fiscal year with 126 employees.

For FY 2016, FHFA's budget is $199.1 million, which will be used to support 618 Full-Time Equivalent (FTE) employees. The majority of future hires in FY 2016 will bolster the examinations and other mission areas of the Agency (see Figure 3). During this same period, the OIG will operate with a budget of $49.9 million to support 155 FTEs.

The Director sets the direction for the Agency to achieve its mission with divisions and offices working together to ensure effective execution of the Agency's strategic goals. FHFA's principal organizational units are shown in Figure 4.

The Office of the Chief Operating Officer oversees the Agency's day-to-day support operations including facilities management; continuity of operations; financial planning and budgeting; contracting; human resource management; information technology; quality assurance; internal and external communications; and audit follow-up functions. The office leads reporting on strategic planning and accountability.

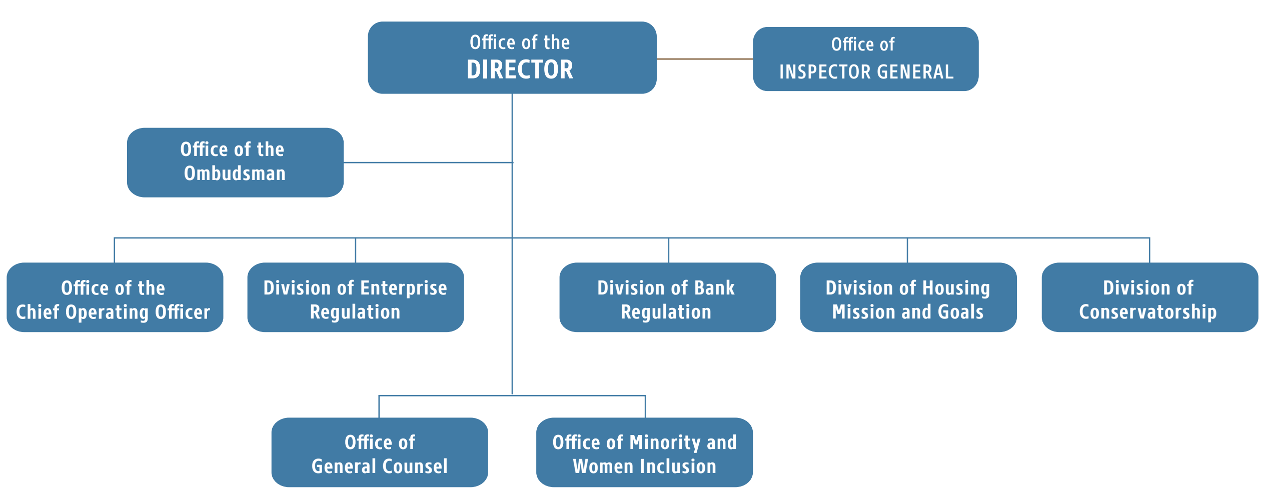
FIGURE 3: Fiscal Year-end 2015 Staffing Plan as of September 30, 2015

FHFA Employees (by specialized area)	As of 9/30/2015 FY 2015 Year-End	As of 9/30/2015 2016 Budgeted
Examinations	248	275
Other Mission	127	148
Office of the Director	29	38
Legal	40	42
Information Technology	46	48
Other Support Functions	64	67
TOTAL	**554**	**618**
TOTAL FHFA-OIG	**126**	**155**

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

The Division of Enterprise Regulation (DER) is responsible for the supervision of Fannie Mae and Freddie Mac and evaluates the safety and soundness of their operations. DER contributes to the achievement of FHFA's strategic and performance goals through planning and executing risk-based examinations of the Enterprises; developing and preparing the annual reports of examination; issuing supervision policy; and providing

FIGURE 4: FHFA Principal Organization Structure



examiner training guidance. The Office of the Chief Accountant supports accounting-related examination oversight and policy work of FHFA.

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

The Division of Housing Mission and Goals (DHMG) is responsible for FHFA policy development and analysis, oversight of housing and regulatory policy, oversight of the mission and goals of the Enterprises, and oversight of the housing finance and community and economic development mission of the FHLBanks. In support of FHFA's mission and the Director's responsibilities as a member of the Federal Housing Finance Oversight Board, the Financial Stability Oversight Board and the Financial Stability Oversight Council, DHMG also oversees and coordinates FHFA activities that involve data analyses and analysis affecting housing finance and financial markets.

The Division of Conservatorship (DOC) assists the FHFA Director, as conservator, in carrying out conservatorship obligations. DOC facilitates communications between the Enterprises and the conservator to ensure the prompt identification of emerging issues and their timely resolution. DOC also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorship. Additionally, the division leads, coordinates and clarifies Agency and Enterprise activities related to the ***2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*** (2014 Conservatorship Strategic Plan).

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

The Office of Minority and Women Inclusion (OMWI) is responsible for all matters of diversity in employment, management, and business activities at FHFA as well as programs to monitor the inclusion of minorities, women, and individuals with disabilities at the regulated entities. OMWI ensures that FHFA is compliant with Equal Employment Opportunity laws and regulations.

The Office of Ombudsman is responsible for considering complaints and appeals from any regulated entity, the Office of Finance, or any person who has a business relationship with a regulated entity or the Office of Finance concerning any matter relating to FHFA's regulation and supervision. Neither FHFA nor any of its employees may retaliate against a regulated entity, the Office of Finance or a person for submitting a complaint or appeal to the Ombudsman.

The Office of Inspector General (OIG) is responsible for conducting independent objective audits, evaluations, investigations, surveys and risk assessments of FHFA's programs and operations. OIG informs the Director, Congress and the public of any problems or deficiencies relating to programs and operations. OIG activities assist FHFA staff and program participants by ensuring the effectiveness, efficiency and integrity of FHFA's programs and operations. Inspector General Laura S. Wertheimer was confirmed by the Senate on September 17, 2014 and was sworn in as FHFA's second Inspector General shortly thereafter. Under her leadership, OIG has focused on the areas of highest risk and has developed a work plan to test the effectiveness of current controls for each area.

What FHFA Provides

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

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

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

Protecting Taxpayers and Managing the Conservatorships

Since September 6, 2008, FHFA has served as the conservator of Fannie Mae and Freddie Mac. As conservator, FHFA works to preserve and conserve each Enterprise's assets and property. Since the conservatorships began, Fannie Mae and Freddie Mac have drawn a combined total of $187.5 billion in taxpayer support under the Preferred Stock Purchase Agreement (PSPAs). As of September 30, 2015, the Enterprises have paid the U.S Department of the Treasury (Treasury Department) a total of $239 billion in dividends on senior preferred stock. Under the terms of the PSPAs, the dividend payments made by the Enterprises do not constitute a repayment of their draws.

Increasing Transparency in the Housing Finance Markets

FHFA promotes the dissemination of information that will improve the public's understanding of housing finance markets and the regulated entities. For example, every three months FHFA publishes an indicator of single-family house price trends at various geographic levels called the *House Price Index (HPI)*. FHFA's HPI is calculated using home sales price information from mortgages sold to, or guaranteed by, the Enterprises. The HPI provides the public with accessible and timely house price information. Additionally, FHFA periodically releases research papers on topics related to mortgage markets. A variety of subjects are addressed in these publications, including mortgage defaults, housing affordability, capital monitoring, and overall market trends.

Preserving Homeownership

Since the start of the foreclosure crisis, FHFA has worked with Fannie Mae and Freddie Mac to develop programs that help preserve homeownership. As directed by FHFA, the Enterprises continue to refine and improve key loss mitigation and foreclosure prevention activities, as well as develop neighborhood stabilization strategies for hardest hit communities. The Enterprises have completed more than 3.5 million foreclosure prevention actions (including home retention modifications, short sales, and deeds-in-lieu) since the start of the conservatorships in September 2008. More than 2.9 million of these actions have helped homeowners stay in their homes, including 1.8 million permanent loan modifications.

Additionally, FHFA and the Enterprises developed a Neighborhood Stabilization Initiative to target loss mitigation efforts in communities that have been hardest hit by the housing downturn.

Overseeing Building a Shared Single-Family Securitization Infrastructure

Building a new infrastructure for the securitization functions of the Enterprises remains an important priority for FHFA. As part of this multiyear effort, FHFA is overseeing the efforts of Fannie Mae and Freddie Mac in developing the Common Securitization Platform (CSP), including the capability of issuing a Single Security, so it can serve as the new infrastructure for most of the Enterprises' current securitization functions. Both Enterprises are currently testing integration of their systems with the CSP. When fully developed, the CSP will: (1) verify certain aspects of the data related to a pool of mortgages; (2) support the issuance of mortgage-backed securities, either backed by pools of loans or by other securities; (3) publish required disclosures related to the securities and pools of loans, both at issuance and on an ongoing basis over the life of the securities; and (4) perform certain bond administration functions.

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

PERFORMANCE SUMMARY

Strategic Goals and Performance Goals

The three strategic goals and the nine performance goals from FHFA's *FY 2015 – FY 2019 Strategic Plan,* published November 21, 2014 are presented below (Figure 5).[2] The performance measures associated with these strategic goals are presented on pages 55 - 62.

Alignment of Resource Allocation by Strategic Goal

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

Figures 6 and 7 on the next page reflect actual gross costs expended and the number of FTE employees working on each strategic goal.

Performance Highlights by Strategic Goal

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

1. Condition of the Enterprises

Each Enterprise continues to have a significant but declining exposure to credit losses from mortgages originated in

FIGURE 5: FHFA's Strategic and Performance Goals

STRATEGIC GOAL 1
Ensure Safe and Sound Regulated Entities

- **1.1**. Assess the safety and soundness of regulated entity operations
- **1.2.** Identify risks to the regulated entities and set expectations for strong risk management
- **1.3.** Require timely remediation of risk management weaknesses

STRATEGIC GOAL 2
Ensure Liquidity, Stability, and Access in Housing Finance

- **2.1.** Ensure liquidity in mortgage markets
- **2.2**. Promote stability in the nation's housing finance markets
- **2.3.** Expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations and for qualified borrowers

STRATEGIC GOAL 3
Manage the Enterprises' Ongoing Conservatorships

- **3.1.** Preserve and conserve assets
- **3.2.** Reduce taxpayer risk from Enterprise operations
- **3.3.** Build a new single-family securitization infrastructure

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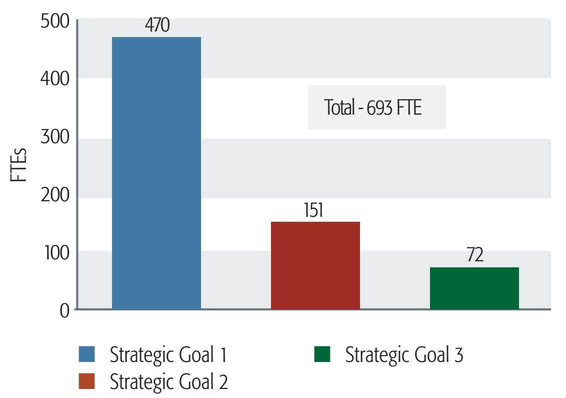
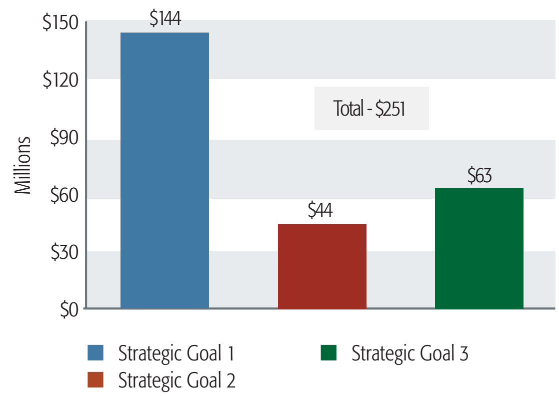
2 The FY 2015 - FY 2019 Strategic Plan covers activities across FHFA, whereas the 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac focuses on FHFA's priorities as conservator of the Enterprises.

FIGURE 6: Full-Time Equivalents (FTEs)[1], FY 2015



1 Full-Time Equivalent (FTE) employment refers to the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. This converts the hours of part-time and temporary workers to full-time equivalent employees. This is not to be confused with the number of employee positions referred to in an agency's staffing plan.

FIGURE 7: Gross Costs (in Millions), FY 2015



the several years prior to conservatorship. During FY 2015, serious delinquency rates (90 days or more past due or in the process of foreclosure) for single-family mortgages declined at Fannie Mae from 1.96 percent to 1.59 percent, and the rate for Freddie Mac fell from 1.96 percent to 1.46 percent. Most of these serious delinquencies are from mortgages originated from 2005 to 2008. Beginning in 2008, both Enterprises made significant changes to strengthen their underwriting and eligibility standards, which have improved the credit quality of their guarantee books of business and overall credit performance.

During FY 2015, the Enterprises made significant progress in winding down the size of their real estate owned (REO) portfolios, which contain real estate acquired through foreclosure or through a deed-in-lieu of foreclosure. At the end of FY 2014, their combined single-family REO portfolios were 121,730 units. By the end of FY 2015, the Enterprises reduced this inventory to 78,738 units.

In 2014, the Enterprises generated net income of $21.9 billion, which is down from the record of $132.7 billion in net income in 2013. The decline reflects the absence of nonrecurring items such as the reversal of the valuation allowances associated with deferred tax assets and various legal settlements. Through the first nine months of 2015, the Enterprises recorded combined net income of $12.7 billion.

While risks from the Enterprises' mortgage-related investment portfolios are declining as the size of their portfolios shrinks, revenues from these portfolios are also shrinking. These investment portfolios continue to expose the Enterprises to interest-rate risk. Accounting differences for these financial assets and liabilities, including derivatives, give rise to significant earnings volatility when interest rates fluctuate, in part because of how mark-to-market requirements are applied. During FY 2015, declines in interest rates and a flattening of the yield curve contributed to fair value losses for derivatives in three out of four quarters for each Enterprise, which contributed to reduced net income and a third quarter 2015 loss for Freddie Mac.

As previously stated, the Treasury Department provides the Enterprises with financial support through the PSPAs that were established when the Enterprises entered conservatorship in 2008. Since the conservatorships began, Fannie Mae and Freddie Mac have drawn a combined total of $187.5 billion in taxpayer support under the PSPAs. As of September 30, 2015, the Enterprises have paid the Treasury Department a total of $239 billion in dividends on senior preferred stock. Under the terms of the PSPAs, the dividend payments made by the Enterprises do not constitute a repayment of their draws. The terms of the PSPA also require the Enterprises to reduce their retained portfolios, as is discussed on page 22. Further, the Enterprises are constrained by the PSPAs from building capital while they remain in conservatorship and must reduce their capital buffers to zero by 2018.

2. Condition of the FHLBanks

The financial condition and performance of the FHLBanks was strong during FY 2015. FHLBanks were profitable, earning a combined $2.7 billion. This marks five consecutive fiscal years in which FHLBanks reported positive annual net income. Net interest income was $31 million less than in FY 2014, while other income was $527 million greater, primarily from increased private-label mortgage-backed securities (PLS) litigation settlements. Expenses related to the merger of the FHLBanks of Seattle and Des Moines contributed to an increase in other expenses of $142 million. The net result of these changes accounted for a $322 million year-over-year increase in net income.

FHLBanks consistently met liquidity and regulatory capital requirements during the fiscal year and capital-to-asset ratios were robust. In FY 2015, the FHLBanks built retained earnings to $13.9 billion, the highest level in the last two decades, while excess and mandatorily redeemable stock continued to decline. The FHLBanks' primary business of making advances to members continued to operate with no credit losses as it has for the entire existence of the FHLBank System. Member demand for FHLBank advances increased during FY 2015, with $591.5 billion of advances outstanding at September 30, 2015, an increase of $46.9 billion from fiscal year-end 2014. The FHLBanks' capital is redeemable at par; therefore, the market value of each FHLBank's equity (MVE) should equal or exceed the par value of its capital stock (PVCS). The MVE to PVCS ratio exceeded 1.00 for all FHLBanks during FY 2015, with the lowest ratio at September 30, 2015 being 1.12.

Private-label mortgage-backed securities continued to present the largest credit risk to the FHLBanks, although this has significantly diminished from prior years, and litigation settlements with the issuers have recently bolstered income and retained earnings at many FHLBanks.

The examinations of the FHLBank found them, generally, to have satisfactory overall condition, operations, and governance. While the FHLBanks generally exhibited adequate credit and operational risk management, examiners identified several weaknesses that needed to be addressed. Only one FHLBank exhibited overall supervisory concerns during FY 2015, as discussed below.

3. FHLBanks of Des Moines and Seattle Merge

In 2011, FHFA adopted a regulation that established the conditions and procedures for consideration and approval of voluntary mergers among FHLBanks. This regulation was mandated by HERA, which permitted any FHLBank to merge with another FHLBank with the approval of its board of directors, its members, and the Director of FHFA. In December 2014, FHFA approved the merger application submitted by the FHLBanks of Des Moines and Seattle. The members of both FHLBanks voted to ratify the merger agreement, and on May 31, 2015, the two FHLBanks merged to form a single entity, the FHLBank of Des Moines. This combination is the first voluntary merger in the history of the FHLBank System and decreased the number of FHLBanks to 11.

Prior to this merger, FHFA had serious supervisory concerns regarding the FHLBank of Seattle. The Bank's capital stock was under repurchase and redemption restrictions, and the Bank's balance sheet lacked mission focus. With the completion of the merger, the combined entity serves 1,455 member financial institutions across 13 states and the U.S. Pacific territories as of September 30, 2015.

In light of fundamental changes that have occurred in the financial system since the creation of the FHLBank System, FHFA views this merger to be consistent with the System's mission and with safety and soundness. FHFA continues to work with the newly merged FHLBank to provide clarification on various issues related to the merger.

4. Risk Management Guidance Issued to the Regulated Entities

Counterparty Risk Management

FHFA issued supervisory guidance to set standards for effective management of counterparty risks by the Enterprises. *Advisory Bulletin AB 2014-07*, issued in December 2014, articulates FHFA's supervisory expectations for effective management of financial, operational, legal, compliance, and reputation risks associated with single-family seller/servicer counterparties.

Fraud Reporting and Fraud Risk Management

FHFA issued guidance for all regulated entities on reporting fraud and suspected fraud. *Advisory Bulletins AB 2015-01* (issued February 2015) and *AB 2015-02* (issued March 2015) cover the suspicious activity reporting requirements in 12 CFR Part 1233, which apply to the FHLBanks and the

Enterprises. In addition, FHFA issued *Advisory Bulletin AB 2015-07* in September 2015, which communicates standards for fraud risk management by the Enterprises, including the establishment and maintenance of internal controls to prevent, deter, and detect fraud or possible fraud.

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

1. FHLBanks and Affordable Housing

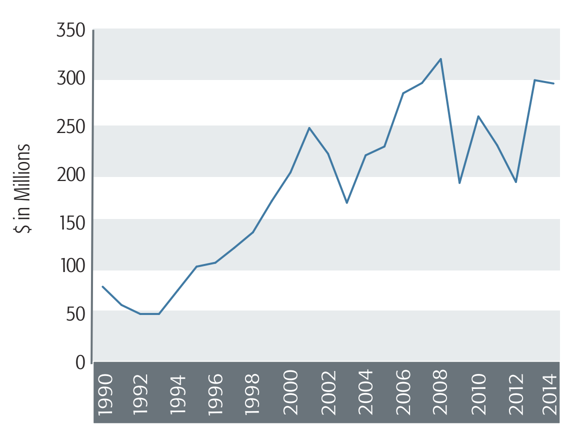
Affordable Housing Program

The FHLBanks are required by the Federal Home Loan Bank Act to establish an Affordable Housing Program (AHP). The AHP consists of two components: 1) a competitive application program that provides subsidized advances and/or grants for approved projects; and 2) a homeownership set-aside grant program designed to assist moderate-, low-, and very low-income households. In 2014, the FHLBanks allocated approximately $293 million to their AHP programs for the purchase, construction, or rehabilitation of over 37,000 housing units (Figure 8). From 1990, when AHP funds were first awarded, through 2014, the FHLBanks have awarded approximately $4.8 billion in AHP subsidies and assisted nearly 759,000 households. Figure 8 reflects FHLBanks' AHP statutory contributions for the past 25 years.

Community Investment Program

The Community Investment Program (CIP) is an advance program for affordable housing and targeted economic development. CIP housing advances must benefit households at or below 115 percent of the area median income. CIP economic development advances must benefit low- or moderate-income households, or they must benefit development located in low- and moderate-income neighborhoods. In 2014, CIP housing advances totaled approximately $2.3 billion and CIP economic development advances totaled about $44.6 million.

FIGURE 8: FHLBanks' AHP Statutory Contributions (1990-2014)



Affordable Housing: FHLBank of Boston and Harbor Homes

This Harbor Homes development was created by demolishing an existing warehouse and constructing 26 new rental units. It is located in downtown Manchester, New Hampshire. The existing owner of the building was facing foreclosure and the community was also facing a loss of U.S. Department of Housing and Urban Development (HUD) supportive operating service funding. Harbor Homes stepped in to purchase the building, to assume the outstanding debt, and to complete the HUD supported housing process (which effectively preserved the project's capital and operating subsidy). With a special emphasis on very low-income and formerly homeless veterans, this project offers many in-house services designed to help veterans reintegrate into the community, including job matching, job placement, and substance abuse counseling.

The sponsor also formed a residents' council. Merrimack County Savings Bank provided permanent debt through the Affordable Housing Program (AHP) subsidized advance in addition to another permanent loan to the project.

(Source: FHLBank of Boston)

Affordable Housing: FHLBank of San Francisco works with Mesa Housing

A Community Investment Program (CIP) advance was used for the construction and financing of Mesa Housing, an 81-unit senior living complex in Mesa, Arizona.

Financed by FHLBank member, Bank of the West, this multifamily rental apartment project was financed with Low Income Housing Tax Credits.

The project is mixed-income with about 80 percent of units occupied by very low-income households.

Bank of the West provided permanent debt through the AHP subsidized advance in addition to another permanent loan to the project.

(Source: FHLBank of San Francisco)

2. Enterprises and Affordable Housing

Housing Goals for Mortgages Purchased by the Enterprises

Under HERA, FHFA is required to establish annual housing goals for mortgages purchased by the Enterprises. These include separate goals and subgoals for single-family home purchase, single-family refinance, and multifamily mortgages. In August 2015, FHFA adopted a ***final rule establishing new housing goals for Fannie Mae and Freddie Mac for 2015 through 2017***. The final rule sets identical benchmarks for both Enterprises in all categories and establishes goals, for the first time, for rental units affordable to low-income families in small (5- to 50-unit) multifamily properties.

For each of the single-family goals there is a pre-set benchmark level (e.g., 23 percent of home purchase mortgages for low-income families in 2014) and also a retrospective comparison with the corresponding share of mortgages originated in the primary mortgage market during the year. The retrospective measure is based on FHFA's analysis of Home Mortgage Disclosure Act data for the year. An Enterprise passes a goal if its performance exceeds either the pre-set benchmark or the retrospective market measure.

Due to the lack of data on the affordability of rental units financed in the mortgage market, there is no "market comparison" for the multifamily goals. As a result, multifamily goals performance is compared only with the pre-set benchmark levels.

Figure 9 shows the Enterprises' housing goals performance for 2014 relative to FHFA's pre-set benchmarks and retrospective market measures.

Revision of Multifamily Provisions in Conservatorship Scorecard

To further efforts to backstop liquidity in the multifamily market and to support financing for affordable and underserved market segments, FHFA revised multifamily components of the 2015 Conservatorship Scorecard in May 2015. The Scorecard had imposed a cap of $30 billion on each Enterprise's annual loan purchases. However, FHFA revised the categories of multifamily loans on properties with affordable rents that are exempt from this cap while continuing to cap the Enterprises' activity for market rate multifamily properties at $30 billion.

3. Increased Access to Mortgage Credit

As outlined in the 2015 Conservatorship Scorecard, FHFA directed the Enterprises to work toward increasing access to mortgage credit for creditworthy borrowers in a manner consistent with safety and soundness.

In FY 2015, the Enterprises announced purchase guidelines that enable creditworthy borrowers who can afford a mortgage, but lack the wealth to pay a substantial down payment plus closing costs, to obtain a mortgage with a 3 percent down payment. These purchase guidelines provide important, targeted access to credit opportunities for creditworthy individuals and families. The guidelines require that borrowers have "compensating factors" and risk mitigants – such as housing counseling, stronger credit

FIGURE 9: Enterprise Affordable Housing Goals

Housing Goal Categories	2014 Benchmark	2014 Market Performance	2014 Enterprise Performance[1]	2015-2017 goals
Single Family Goals[2]				
Low-income home purchase	23 percent	22.8 percent	Fannie Mae: 23.5 percent Freddie Mac: 21.0 percent	24 percent
Very low-income home purchase	7 percent	5.7 percent	Fannie Mae: 5.7 percent Freddie Mac: 4.9 percent	6 percent
Low-income areas home purchase goal	18 percent	22.1 percent	Fannie Mae: 22.7 percent Freddie Mac: 20.1 percent	19 percent (in 2015)
Low-income areas home purchase subgoal	11 percent	15.0 percent	Fannie Mae: 15.5 percent Freddie Mac: 13.6 percent	14 percent
Low-income refinance	20 percent	25. 1 percent	Fannie Mae: 26.5 percent Freddie Mac: 26.4 percent	21 percent
Multifamily Goals (Units)[3]				
Low-income multifamily	Fannie Mae: 250,000 units Freddie Mac: 200,000 units	NA	Fannie Mae: 262,050 units Freddie Mac: 273,434 units	300,000 units for both Enterprises
Very low-income multifamily	Fannie Mae: 60,000 units Freddie Mac: 40,000 units	NA	Fannie Mae: 60,542 units Freddie Mac: 48,689 units	60,000 units for both Enterprises
Small property: low-income units	NA	NA	NA	For both Enterprises: 2015 - 6,000 units; 2016 – 8,000 units; 2017 – 10,000 units

NA – Not Applicable

1 Preliminary official results as determined by FHFA in October 2015.

2 Low-income families are those with incomes no greater than 80 percent of Area Median Income (AMI). Very low-income families are those with incomes no greater than 50 percent of AMI. The low-income areas home purchase subgoal includes mortgages in low-income census tracts and loans to borrowers with incomes no greater than AMI in high-minority census tracts. The low-income areas housing goal is adjusted annually based on the low-income areas subgoal plus an increment for mortgages to moderate-income families residing in designated disaster areas.

3 Low-income units are those affordable to families with incomes no greater than 80 percent of AMI. Very low-income units are those affordable to families with incomes no greater than 50 percent of AMI. Small multifamily properties are those with 5 to 50 units.

histories, and lower debt-to-income ratios – in order to make the mortgage eligible for purchase by Fannie Mae or Freddie Mac. Like other loans with down payments below 20 percent, these loans require credit enhancement, usually in the form of private mortgage insurance. Fannie Mae implemented the program in the first quarter of FY 2015, and Freddie Mac implemented the program in the second quarter of FY 2015.

FHFA and the Enterprises also announced details clarifying the definition of life-of-loan representation and warranty exclusions in November 2014. Concerns about when a mortgage loan might be subject to repurchase, along with other market factors, had contributed to increased credit overlays that drive up lending costs and reduce access to credit. Clarifying these life-of-loan exclusions is designed to provide greater certainty for all parties, facilitate greater liquidity, and increase access to credit without compromising safety and soundness. Other representation and warranty related work during 2015 included working towards defining remedies for loan origination defects and providing updated guidance on remedies for servicing-related breaches.

In coordination with FHFA, the Enterprises also continued their joint efforts during 2015 to develop an independent dispute resolution program to resolve contested loan-level disputes about repurchase requests. Under this program, a neutral and independent third party would determine whether a breach of representations and warranties exists to support the repurchase requests. Fannie Mae and Freddie Mac completed a pilot of the independent dispute resolution program in August 2015, and they are now undertaking assessments of the pilot to inform the final program design for anticipated rollout in FY 2016.

4. Neighborhood Stabilization Initiative

The Neighborhood Stabilization Initiative (NSI) was developed by FHFA, Fannie Mae, and Freddie Mac to stabilize neighborhoods hit hardest by the recent housing crisis. The NSI pilot in Detroit, Michigan and Cook County, Illinois included strategies to help struggling homeowners avoid foreclosure and to dispose of REO properties held by Fannie Mae and Freddie Mac. The Enterprises partnered with the National Community Stabilization Trust, a national non-profit organization experienced in stabilization efforts, to work with local community organizations in these cities.

The pilot programs offered both pre-foreclosure and post-foreclosure solutions. FHFA assessed outcomes from the pilots and will expand the program to other cities in FY 2016.

5. Servicer and Counterparty Standards Strengthened

In May 2015, the Enterprises issued new minimum eligibility requirements for all sellers and servicers doing business with the Enterprises. The strengthened guidelines state that all these sellers and servicers, including depository institutions, must have a minimum net worth base of $2.5 million plus 25 basis points of unpaid principal balance for the loans they service. Depository institutions are already required to meet the capital ratio requirements of their prudential regulator. Additionally, non-depository sellers and servicers must hold a minimum capital ratio of tangible net worth greater than or equal to 6 percent of the entity's total assets. Non-depository servicers must also meet additional liquidity requirements.

These financial requirements become effective on December 31, 2015. Other operational requirements for Enterprise sellers and servicers became effective on September 1, 2015.

6. Private Mortgage Insurer Eligibility Requirements (PMIERs) Finalized

On April 17, 2015 Fannie Mae and Freddie Mac issued final, revised PMIERs establishing uniform requirements for mortgage insurers that are Enterprise counterparties. The revised requirements set financial standards that require mortgage Insurers to demonstrate adequate resources to pay claims and operational standards relating to quality control processes and performance metrics. Non-compliance with the requirements or material deviations from the performance expectations will trigger Enterprise remediation. In June 2015, the Enterprises published revised PMIERs that included technical corrections and a new required asset factor for lender paid mortgage insurance. The revised requirements will be effective as of December 31, 2015.

7. Enterprise Guarantee Fee Evaluation Completed

In April 2015, FHFA completed a comprehensive review of the Agency's policy for guarantee fees charged by Fannie Mae and Freddie Mac. FHFA's review considered multiple factors, including responses to the Agency's June 2014 request for public input, analyses by housing finance market participants of the implied guarantee fee pricing from the Enterprises' credit risk transfers, and internal analyses of Enterprise pricing, credit guarantee loss data, and modeling.

FHFA's review focused on reaching an appropriate balance between FHFA's statutory obligations to: (1) ensure the safety and soundness of the Enterprises, and (2) foster a liquid national housing finance market. In light of this balance, FHFA determined, based on both internal and external analysis, that the current average level of guarantee fees appropriately reflects the current costs and risks associated with providing the Enterprises' credit guarantee.

As a result, FHFA found no compelling economic reason to change the general level of fees. FHFA did, however, make certain minor and targeted fee adjustments. To implement these decisions, the Agency directed the Enterprises to make changes to their guarantee fees that will slightly reduce, maintain, or increase costs for different categories of loans. Since all of the guarantee fee changes are small, the Agency does not expect the adjustments to cause any material changes to the Enterprises' loan volume in any of the loan categories and expects the small changes to be revenue neutral.

The guarantee fee adjustments directed by FHFA fall into two categories:

- First, the foundational adjustment is removing the 25 basis point upfront adverse market charge. The Enterprises established this fee in 2008 as an on-top pricing increase to reflect the unfavorable condition of the national housing market at that time. FHFA removed this housing crisis-era fee in light of improvements in the housing markets.

- Second, the Agency applied targeted and small fee adjustments to a subset of Enterprise loans. This includes small fee increases for certain loans in the Enterprises' upfront loan-to-value ratio/credit score pricing grid and for certain other loans (e.g., cash-out refinances, investment properties, loans with secondary financing, and jumbo conforming loans).

8. Duty to Serve Underserved Markets Regulation

The Safety and Soundness Act establishes a duty for the Enterprises to serve very low-, low-, and moderate-income families in three underserved markets—manufactured housing, affordable housing preservation, and rural areas—with the objective of increasing the liquidity of mortgage investments and improving the distribution of investment capital available for mortgage financing in each of these markets.

During 2015, FHFA worked toward publishing a reproposed rule to implement these duty to serve requirements. FHFA reviewed the Agency's prior proposed rule from 2010, completed significant research on the underserved markets, vetted policy options, and consulted with industry and consumer advocacy stakeholders. FHFA plans to issue the reproposed rule in the fourth quarter of calendar year 2015, and the Agency will seek public comment on this proposal.

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

1. Issued 2015 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions

In May 2014, FHFA released the *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac (2014 Conservatorship Strategic Plan)*, which provided a framework for FHFA's implementation of its obligations as conservator of the Enterprises and set forth three strategic goals: Maintain, Reduce and Build. In January 2015, FHFA published the 2015 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions LLC (CSS), which established FHFA's expectations for Enterprise activities to further each strategic goal. The annual conservatorship scorecard is FHFA's mechanism for communicating its priorities and expectations to the Enterprises and CSS, and providing transparency to the public.

Guarantee Fees

Guarantee fees are amounts charged by the Enterprises to cover the cost of providing a guarantee. When the Enterprises acquire single-family loans from lenders and securitize them in the form of mortgage-backed securities, the Enterprises will guarantee timely payment of principal and interest to the investor. Guarantee fees cover three cost components:

- Expected costs that result from the failure of some borrowers to make their payments;
- General and administrative expenses; and
- The cost of holding the modeled capital amount needed to protect against larger unexpected losses that result from the failure of some borrowers to make their payments in a severe stress environment.

2. Enterprises Expanding Credit Risk-Sharing Transactions

At the direction of FHFA, the Enterprises continue to promote and expand the transfer of Enterprise credit risk to private investors. In 2012, FHFA initiated a program of credit risk transfer transactions intended to reduce the Enterprises' overall risk and, therefore, the risk they pose to taxpayers. In the last three years, the Enterprises have made significant progress in developing a market for credit risk transfer securities, evidenced by the fact that they have already transferred significant credit risk on loans with over $700 billion of unpaid principal balance (UPB).

Credit risk transfer is now a regular part of the Enterprises' business. In all credit risk transfers, the Enterprises and FHFA have been strategic about which loans to target. Instead of using a random sample of Enterprise loans, the transactions focus on new loan purchases with the greatest credit risk. The targeted loans include new acquisitions of 30-year fixed-rate mortgages that have loan-to-value ratios exceeding 60 percent, excluding HARP refinances. The Enterprises are currently transferring significant credit risk on approximately 90 percent of these targeted loans, the mainstay of their single-family purchases. This approach has made the transactions easier to scale up and more economical, benefitting the Enterprises and taxpayers.

The vast majority of credit risk transfer has been accomplished through Enterprise-issued debt, such as Freddie Mac's Structured Agency Credit Risk and Fannie Mae's Connecticut Avenue Securities. Other types of risk-transfer transactions have included insurance/reinsurance deals, senior-subordinate securities, and collateralized recourse transactions.

FIGURE 10: Credit Risk Transfers

	2015 Calendar Year Target	Year to Date (October 15, 2015)
Freddie Mac	$120 Billion	$ 126 Billion
Fannie Mae	$150 Billion	$ 205 Billion

3. Retained Mortgage Portfolios Continue to Decline

The 2014 Conservatorship Scorecard expressed the expectation that the Enterprises would continue the ongoing reduction of their retained portfolios, with a focus on the sale of their less liquid assets.

As part of FHFA's requirement that the Enterprises further reduce their retained portfolios, the 2014 Conservatorship Scorecard directed each Enterprise to submit plans for approval to reduce each retained portfolio to $250 billion by December 31, 2018 as required by the PSPA. In 2015, FHFA required the Enterprises to include contingency plans to meet the 2018 PSPA objective even under adverse market conditions, such as rising interest rates or falling house prices. In developing these plans, FHFA also required the Enterprises to prioritize selling their less liquid portfolio assets, such as non-agency securities, in a commercially reasonable manner using a transparent sales process that is auction-based where appropriate. FHFA also required each Enterprise to take into account how the sale of less liquid assets would impact both the overall market and neighborhood stability.

For calendar year 2015, the Enterprises were required to reduce their retained portfolio below $399.5 billion. Both Enterprises met this goal by September 30. On September 30, 2015, the retained portfolio for Fannie Mae was $370.4 billion, and Freddie Mac was $367.1 billion.

4. Progress on the Common Securitization Platform

FHFA's *2014 Conservatorship Strategic Plan* and *2015 Conservatorship Scorecard* continued to prioritize building a new infrastructure for the securitization functions of the Enterprises. That effort includes ongoing work to develop the CSP. Throughout the project, FHFA has worked with the Enterprises and Common Securitization Solutions, LLC (CSS) to build the CSP in a way that is adaptable for use by additional market participants in the future. CSS is a joint venture owned by Fannie Mae and Freddie Mac that is developing and will operate the CSP. The CSP is being designed as an infrastructure for mortgage securitization for the Enterprises that (1) supports the functions necessary for current Enterprise single-family securitization activities; (2) includes the development of the operational and systems capabilities necessary to issue a Single Security for the Enterprises; and (3) allows for the integration of additional market participants in a future system.

During FY 2015, the Enterprises made significant progress on several key CSP priorities:

- Designating staff from each Enterprise to work on the project at the CSS location. This team worked on developing the technology and operational infrastructure of the CSP platform;
- Testing of the integration of both Enterprises' systems with the CSP to make sure the Enterprises can use the new platform easily. This includes progress on the Data Acceptance, Issuance Support, and Bond Administration modules;
- Creating a software development and testing environment independent of the Enterprises;
- Appointing a Chief Executive Officer (CEO) for CSS and the creation of a CSS board of managers; and
- Creating an Industry Advisory Group whose members will provide feedback and share information regarding progress on the CSP as it is being completed.

5. Progress in Developing a Single Enterprise Mortgage-Backed Security (Single Security)

FHFA's *2014 Conservatorship Strategic Plan* includes the goal of developing a Single Security as part of the efforts to build a CSP. The mortgage-backed securities (MBS) the Enterprises currently issue to finance single-family mortgage loans are not interchangeable, and Freddie Mac's Participation Certificates (PCs) are less liquid than Fannie Mae's MBS. That liquidity differential is costly to taxpayers. To improve the liquidity of both Enterprises' securities, Fannie Mae and Freddie Mac are developing a single mortgage-backed security that each will issue and guarantee. When completed, the Enterprises will issue Single Securities through the CSP.

On May 15, 2015, the Agency issued *An Update on the Structure of the Single Security* which contained decisions about the parameters of the Single Security, including the issuer and guarantee structure, security features, re-securitizations, and disclosures. In reaching these conclusions, FHFA considered responses to a Request for Input issued in August 2014 and ongoing dialogue with industry stakeholders.

Throughout the multiyear process of developing the CSP and implementing the Single Security, FHFA and the Enterprises will continue to seek input and work with stakeholders to achieve the goal of improving overall liquidity of the secondary mortgage market while mitigating any risk of market disruption. The Industry Advisory Group will provide input on the Single Security initiative as well as the CSP.

6. Private-Label Mortgage-Backed Securities Continuing Suits and Settlements

As conservator of Fannie Mae and Freddie Mac, FHFA is charged by the Housing and Economic Recovery Act of 2008 with preserving and conserving their assets. In September 2011, FHFA, as conservator for the Enterprises, pursuant to its duty to preserve and conserve, filed lawsuits against 18 financial institutions, certain of their officers and various unaffiliated lead underwriters. The suits alleged violations of federal and state securities laws and common law in the sale of residential PLS to the Enterprises. In settling 16 of these cases, FHFA has obtained a net total of approximately $18 billion in PLS litigation settlements for the Enterprises.

In May 2015, after a four-week trial, the United States District Court for the Southern District of New York ruled in favor of FHFA and the Enterprises and ordered Nomura Holding America, Inc. and other defendants to pay over $806 million in rescissory damages in the seventeenth PLS lawsuit. The award requires return of the bonds, worth approximately $400 million to the defendants. Subsequently, the Court entered a stipulated judgment for $33 million in attorneys' fees and costs, which Nomura has agreed to pay if it loses the appeal it has filed with the United States Court of Appeals for the Second Circuit.

The eighteenth and final lawsuit, against Royal Bank of Scotland (*FHFA v. RBS, et al.* (D. Conn.)), in which FHFA seeks several billion dollars in damages, is still pending and a trial date has not yet been set.

Resource Management

1. Audit of the FHFA Financial Statements

On November 9, 2015, FHFA received an unmodified clean audit opinion on its FY 2015 Financial Statements from the U.S. Government Accountability Office. An independent financial audit provides assurance that management has presented a "true and fair" view of the Agency's financial performance and position. This is the seventh consecutive clean opinion that the FHFA has earned. The audited financial statements are presented beginning on page 74.

2. The Federal Information Security Management Act Audit Report

In September FY 2015, FHFA received a Federal Information Security Management Act (FISMA) Audit report with no material weaknesses or significant deficiencies. FISMA requires each federal agency to develop, document, and implement an agency-wide program to provide information security for the data and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.

3. New Human Resources Information System

FHFA implemented a new human resources information system (HRIS) effective September 6, 2015. The system provides automated and integrated solutions for personnel action processing, benefits management, payroll operations, time and attendance, recruitment, and documenting employees' official personnel folders.

The new HRIS will allow FHFA to maintain flexibility in human resources programs while leveraging technology to minimize paper processes, eliminate double entry of data, centrally manage employee data, and integrate systems. The new HRIS is expected to improve processes, efficiency and overall service.

4. Certificate for Excellence in Accountability Reporting Award

The Association of Government Accountants (an independent, non-profit, non-governmental agency) awarded FHFA the Certificate for Excellence in Accountability Reporting (CEAR) for its FY 2014 PAR. This is the seventh consecutive CEAR award FHFA has received. The CEAR award is presented to agencies that have demonstrated excellence in integrating performance and accountability reporting. Only agencies with clean opinions on their financial statements, from an independent auditor, are eligible for the award.

5. Diversity and Inclusion Strategic Plan

The Agency strongly believes that diversity and inclusion are important components of its business and mission. FHFA developed and released its first ***OMWI Strategic Plan*** during FY 2015 that outlines an "integrated and strategic focus on diversity and inclusion" consistent with Executive Order 13583, section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, section 1116 of HERA, and the Equal Employment Opportunity Commission's regulations. The OMWI Strategic Plan identifies FHFA's diversity and inclusion goals, which are summarized below in Figure 11.

FIGURE 11: FHFA's Diversity and Inclusion Goals

	FHFA Diversity and Inclusion Goals	Description
1	Design a Comprehensive OMWI Operational Structure	Identify the components and design an operational structure necessary for the effective and efficient delivery of OMWI programs and services.
2	Develop Clear and Meaningful Standards	Develop standards for implementing diversity and inclusion within the Agency and guidance for use by the regulated entities.
3	Deliver Meaningful OMWI Communication	Educate internal and external stakeholders on the OMWI mission and the inherent benefits and opportunities in achieving its objectives.
4	Strengthen the Understanding of Diversity, Inclusion, and Equal Opportunity	Enhance understanding of the OMWI and Equal Employment Opportunity (EEO) missions and ownership of the roles and responsibilities in fulfilling the missions, through knowledge, education, and training, both within the Agency and for its regulated entities.
5	Drive FHFA Cultural Awareness	Serve as a catalyst for identifying and addressing FHFA's cultural inclusion challenges and opportunities.

Summary of Performance Measures

For FY 2015, FHFA identified 24 measures to help evaluate and assess FHFA's progress towards the goals stated in its Fiscal Years 2015 - 2019 Strategic Plan. The following table lists each measure and whether the target was met or not met in FY 2015. FHFA met 22 of 24 performance measures. For a more detailed examination of these measures, please refer to the "Performance Section" on pages 52-62.

STRATEGIC GOAL 1	Ensure Safe and Sound Regulated Entities	FY15 Results
Performance Goal 1.1: Assess the safety and soundness of regulated entity operations		
1.1.1	Ensure that written risk-based supervisory strategies and examination plans are in place prior to commencement of the examination cycle	**MET**
1.1.2	Provide Reports of Examination to regulated entities within 90 days of completing examination work	**NOT MET**
1.1.3	The FHLBanks maintain a quarterly Market Value of Equity-to-par ratio greater than or equal to one	**MET**
1.1.4	Determine the quarterly capital classification for each FHLBank and communicate the results to the FHLBanks by the end of the following quarter	**MET**
Performance Goal 1.2: Identify risks to the regulated entities and set expectations for strong risk management		
1.2.1	Issue written standards and criteria to the regulated entities for fraud reporting and fraud risk management	**MET**
1.2.2	Issue guidance to the Enterprises on seller/servicer risk management	**MET**
Performance Goal 1.3: Require timely remediation of risk management weaknesses		
1.3.1	Regulated entities complete remedial action for Matters Requiring Attention within agreed upon timeframes	**MET**

STRATEGIC GOAL 2	Ensure Liquidity, Stability, and Access in Housing Finance	FY15 Results
Performance Goal 2.1: Ensure liquidity in mortgage markets		
2.1.1	Review and communicate to the public results of request for input on Fannie Mae and Freddie Mac guarantee fees	**MET**
2.1.2	Publish proposed Duty to Serve rule in the Federal Register	**NOT MET**
Performance Goal 2.2: Promote stability in the nation's housing finance markets		
2.2.1	Publish private mortgage insurer eligibility requirements	**MET**
2.2.2	Publish updated minimum servicer eligibility standards	**MET**
2.2.3	Complete research projects as specified on FHFA's approved research agenda	**MET**
2.2.4	Continue publication of the monthly and quarterly FHFA House Price Index	**MET**
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations and for qualified borrowers		
2.3.1	Require the Enterprises to work to increase access to mortgage credit for creditworthy borrowers	**MET**
2.3.2	Require the Enterprises to continue to encourage greater participation by small lenders, rural lenders, and state and local housing finance agencies	**MET**
2.3.3	Develop operational guidance to ensure that the regulated entities and the Office of Finance comply with statutory and regulatory requirements regarding their Office of Minority and Women Inclusion roles and responsibilities	**MET**

STRATEGIC GOAL 3	Manage the Enterprises' Ongoing Conservatorships	FY15 Results
Performance Goal 3.1: Preserve and conserve assets		
3.1.1	Maintain a qualified board of directors and Chief Executive Officers to oversee the implementation of Conservator objectives	**MET**
3.1.2	2015 Conservatorship Scorecard provided to the Enterprises	**MET**
Performance Goal 3.2: Reduce taxpayer risk from Enterprise operations		
3.2.1	Oversee reduction in retained portfolios consistent with the Preferred Stock Purchase Agreement	**MET**
3.2.2	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	**MET**
Performance Goal 3.3: Build a new single-family securitization infrastructure		
3.3.1	Oversee release by Common Securitization Solutions of a new version of the Common Securitization Platform software (with updated interfaces and capabilities) for the Enterprises to test	**MET**
3.3.2	Issue a progress report on the status of the Single Security initiative, including updated information on the features, disclosure standards, and related requirements	**MET**

RESOURCE MANAGEMENT	Supporting the Effective Operations of the Agency	FY15 Results
RM1:	FHFA's financial statements and Federal Information Security Management Act audits receive unqualified opinions with no material weaknesses or unacceptable risks	**MET**
RM2:	Number of awards that are obligated with minority- and women-owned businesses	**MET**

Summary of Key Performance Indicators

One way that federal agencies evaluate the success of their programs is by using performance indicators. In addition to identifying measures that are critical to achieving strategic goals and objectives, key performance indicators can also be used to gauge what is deemed important to the management of the agency.

For FY 2015, the following five key performance indicators have been identified to measure how well FHFA is meeting the key objectives of the Agency as outlined in the FY 2015 - 2019 Strategic Plan and the Annual Performance Plan for FY 2015. In FY 2015, FHFA met four of five key performance indicators.

STRATEGIC GOAL 1	*Ensure Safe and Sound Regulated Entities*	
Performance Goal 1.1: Assess the safety and soundness of regulated entity operations		
1.1.2	Provide Reports of Examination to regulated entities within 90 days of completing examination work	**FY 2015 Target** 100% of the time
	FY 2015 Results	**NOT MET**
1.1.3	The FHLBanks maintain a quarterly Market Value of Equity-to-par ratio greater than or equal to one	**FY 2015 Target** 100% of the time
	FY 2015 Results	**MET**

STRATEGIC GOAL 2	*Ensure Liquidity, Stability, and Access in Housing Finance*	
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations and for qualified borrowers		
2.3.1	Require the Enterprises to work to increase access to mortgage credit for creditworthy borrowers	**FY 2015 Target** Implement a 97 percent loan-to-value product during FY 2015
	FY 2015 Results	**MET**

STRATEGIC GOAL 3	*Manage the Enterprises' Ongoing Conservatorships*	
Performance Goal 3.2: Reduce taxpayer risk from Enterprise operations		
3.2.2	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	**FY 2015 Target** 31-Dec-14
	FY 2015 Results	**MET**
Performance Goal 3.3: Build a new single-family securitization infrastructure		
3.3.1	Oversee release by Common Securitization Solutions of a new version of the Common Securitization Platform software (with updated interfaces and capabilities) for the Enterprises to test	**FY 2015 Target** 30-Jun-15
	FY 2015 Results	**MET**

LOOKING AHEAD TO FY 2016

FHFA continues to focus on its mission of ensuring that the regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. This section describes the Agency's priorities in three general areas: 1) oversight of the Enterprises; 2) oversight of the FHLBanks; and 3) promoting diversity and inclusion within the Agency and at the entities it regulates.

1. Oversight of the Enterprises

FHFA's oversight of Fannie Mae and Freddie Mac involves both regulatory and conservatorship activities pursuant to the Agency's statutory obligations. In 2016, the Agency's oversight priorities will include the following:

Managing the Conservatorships

As the conservatorships of the Enterprises enter their eighth year, FHFA will continue to set the strategic direction of Fannie Mae and Freddie Mac, conduct regular oversight and analysis of Enterprise activities, and direct Enterprise activities as the Agency determines is appropriate. Pursuant to the Agency's statutory authority as conservator, FHFA has provided directions that allow the Enterprise boards and management to conduct day-to-day operations. FHFA retains the authority to review and approve all Enterprise activities, transactions, and decisions.

FHFA regularly works with executive management of the Enterprises and their boards to ensure that their actions support the goals of the conservatorships. FHFA also conducts appropriate reviews and analyses to approve decisions on matters specifically reserved to the conservator. Additionally, FHFA evaluates and monitors decisions made by the boards and management of the Enterprises.

In support of FHFA's 2014 Conservatorship Strategic Plan, the Agency sets out its conservatorship priorities for the Enterprises through the release of an annual scorecard. FHFA is currently working toward publishing the 2016 Conservatorship Scorecard before the end of 2015.

Supervising Enterprise Information Security and Cyber Risk Management

Information security is a significant risk for both Enterprises, in light of the frequency and sophistication of attacks on information technology systems of financial institutions. A key objective of FHFA's supervisory work will continue to be the effective oversight of how each Enterprise manages cyber risks and addresses vulnerabilities. FHFA *Advisory Bulletin 2014-05, Cyber Risk Management Guidance*, enumerates components of a strong cyber risk management program, and FHFA examinations of the Enterprises will assess the quality of risk management based on those supervisory expectations. FHFA plans to issue additional guidance to clarify supervisory expectations relating to the collection, maintenance, use, dissemination, and protection of data.

Supervising Non-Bank Counterparty Risk Management

The Enterprises continue to have significant risk exposure to non-depository institutions as sellers and servicers of mortgages. Non-depository institutions are generally not subject to regulatory capital requirements of a prudential regulator. In May 2015, the Enterprises issued new capital and liquidity requirements for all sellers and servicers doing business with the Enterprises, and these requirements become effective December 31, 2015.

In addition, FHFA issued guidance in December 2014 setting forth supervisory expectations for the Enterprises' management of financial and operational risks associated with the purchasing and servicing of single-family mortgages. During FY 2016, FHFA will continue to conduct examinations to evaluate the soundness of the Enterprises' counterparty risk management.

Maintaining Foreclosure Prevention Activities

In the upcoming year, FHFA will work with the Enterprises to assess and develop long-term foreclosure prevention solutions. Earlier this year, FHFA announced the extension of the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP) through the end of 2016. With these extensions in place, FHFA has

Did You Know...

If your loan is owned by Fannie Mae or Freddie Mac, and you are current on payments, but owe more than the house is worth, you can still refinance through the Home Affordable Refinance Program (HARP).

Under HARP, homeowners with little or no equity in their homes whose mortgages are guaranteed by the Enterprises and who have continued to make timely monthly payments are allowed to refinance to take advantage of lower mortgage interest rates. HARP has been extended one more year through December 31, 2016.

www.harp.gov

begun evaluating the lessons learned from these programs and how best to build on these lessons in the future.

In addition, FHFA will continue to work with the Enterprises to reach borrowers eligible for HARP. Through HARP, borrowers with little or no equity are able to refinance into more affordable mortgages without new or additional mortgage insurance. In partnership with local housing experts and community leaders, FHFA has hosted a series of informational sessions in cities with high numbers of HARP eligible borrowers. Looking forward to FY 2016, FHFA plans to hold more events, and will continue to assess opportunities to educate more homeowners about the availability and benefits of HARP. FHFA is also assessing the best means of following-up on previously visited cities.

Expanding Access to Mortgage Credit for Creditworthy Borrowers

During FY 2016, FHFA will work with the Enterprises to build on their recent steps to support responsible access to mortgage credit. These efforts include working with the Enterprises to assess barriers to credit and develop appropriate solutions.

FHFA and the Enterprises will also continue to assess possible appraisal-related representation and warranty relief. Both Enterprises have developed tools that provide lenders feedback about appraisal quality and are now using these tools in independent pilots to assess the feasibility of representation and warranty relief on the value of collateral. These pilots are in their very early stages. Throughout 2016, FHFA will continue efforts to provide as much certainty on appraisal-related issues as is possible.

FHFA is also planning to issue a proposed Duty to Serve rule in the fourth quarter of calendar year 2015. This proposed rule will encourage Fannie Mae and Freddie Mac to innovate responsibly in the areas of affordable housing preservation, housing in rural areas, and manufactured housing. In re-proposing this rule, FHFA will provide stakeholders with an opportunity to comment on how the Enterprises can best serve these three underserved markets. FHFA will thoroughly review these comments in finalizing the Enterprises' duty to serve obligations.

Supporting Affordable Rental Housing

While access to mortgage credit and homeownership are critically important, FHFA will also remain focused on Fannie Mae and Freddie Mac's role in supporting liquidity in the multifamily market, with a concentration on the Enterprises' support of affordable rental housing. Looking ahead to 2016, FHFA expects to maintain the $30 billion cap for each Enterprise for market rate properties. To avoid the kind of uncertainty experienced this past year, FHFA will institute a quarterly review process to make necessary adjustments if the market grows beyond our initial projections. FHFA will continue to exclude affordable multifamily housing purchases from this cap.

Credit Risk Transfers

FHFA's work with the Enterprises to transfer credit risk to the private sector through various financial transactions is an ongoing priority. This initiative ensures that the private sector continues to assume meaningful credit risk, with the Enterprises remaining as backstops to cover catastrophic risk. Since 2013, the Enterprises have transferred a significant portion of credit risk on single-family mortgages with a total unpaid principal balance exceeding $700 billion. As of October 15, 2015, the Enterprises have exceeded FHFA's 2015 Conservatorship Scorecard targets for credit risk transfers.

Going forward, FHFA is looking to refine and further standardize the Enterprises' debt, reinsurance, and upfront offerings as part of an effort to broaden liquidity. FHFA also will continue to work with the Enterprises on other innovative transaction types, such as credit-linked notes.

While significant progress has been achieved in a short timeframe, the risk transfer market is still developing. FHFA and both Enterprises are committed to building on our recent progress, with a goal of solidifying credit risk transfers as a key part of Fannie Mae and Freddie Mac's credit guarantee business going forward.

Implementing the Common Securitization Platform and Single Security

As outlined in the 2014 Conservatorship Strategic Plan and the 2015 Conservatorship Scorecard, one of FHFA's priorities is completing the Common Securitization Platform (CSP). Going forward, FHFA will continue to monitor and oversee the CSP as it moves from development to testing to implementation. FHFA will also continue to release progress reports to the public that document the work being done to develop this infrastructure and demonstrate that all parties are working expeditiously, but responsibly, to implement the CSP.

In our ongoing work with the Enterprises and CSS to develop the CSP, FHFA has announced that the CSP and the Single Security efforts will be launched in two stages. In the first stage, which we are calling Release 1, the CSP will begin supporting the issuance and administration of Freddie Mac's securities. In the second phase, Release 2, the CSP will begin supporting the issuance and administration of securities for both Enterprises and will do so using the new Single Security for the first time. FHFA will continue working with the Enterprises to announce the Release 1 timeline during 2016.

Supervising CSS

FHFA will continue ongoing work to develop and implement a supervision framework for Common Securitization Solutions, LLC, which is subject to FHFA's prudential supervision as an affiliate of the Enterprises. The framework will address how supervision of CSS should be integrated into FHFA's existing program for oversight of the Enterprises' safety and soundness, and it will take into consideration appropriate program, rating system, regulations and supervision guidance, and examiner reference materials.

2. Oversight of the Federal Home Loan Banks

As the regulator of the FHLBanks, FHFA will continue to oversee the FHLBanks and to ensure that they continue to focus on their housing finance and community investment mission. Oversight of the FHLBanks will include the FHLBanks' focus on mission assets and activities. In the next fiscal year, FHFA will also monitor expansions of FHLBank mortgage programs and will finalize the FHLBank membership regulation.

Continuing to Focus on FHLBanks Core Mission Activities

Several years ago, FHFA began discussions with the FHLBanks about their core mission activities and asked each FHLBank to develop, as part of its strategic plan, a mission asset plan. In 2014, FHFA formed a working group with the FHLBanks and jointly developed a core mission achievement framework. In FY 2015, FHFA issued an Advisory Bulletin (***AB 2015-05: FHLBank Core Mission Achievement***), providing guidance on FHLBank core mission achievement. The Advisory Bulletin describes how FHFA will assess the FHLBanks' core mission achievement, as well as FHFA's expectations about the content of strategic plans for FHLBanks with core mission assets below specified levels. In 2016, FHFA will begin assessing the FHLBanks using the new framework based on year-end 2015 data.

Monitoring Expansion of FHLBank Mortgage Programs

In 2000, the Federal Housing Finance Board, one of FHFA's predecessor agencies, adopted the Acquired Member Assets (AMA) regulation, which authorized the FHLBanks to acquire and hold on-balance sheet conforming and government guaranteed or insured loans. The AMA programs are structured such that the FHLBanks manage the interest-rate risk and the participating member manages a substantial portion of the risks associated with originating the mortgage, including a substantial portion of the credit risk.

Starting in 2008, FHFA has also authorized several off-balance sheet mortgage programs, separate from the purchase programs. These off-balance sheet programs provide participating members another alternative to sell mortgage loans, thereby transferring risk and potentially freeing up capital to expand credit availability in local communities.

In 2015, the FHLBanks began to offer additional off-balance sheet programs on a pilot basis. Because growth in this area may lead to operational complexities or may affect overall mortgage market dynamics, FHFA will continue to monitor the evolution of this business segment.

Evaluating FHLBank Membership Requirements

In 2014, FHFA issued a proposed rule that proposed revisions to FHFA's existing regulation governing FHLBank membership. The proposed rule seeks to ensure that members maintain a commitment to housing finance and to define the entities eligible to access FHLBank advances and the benefits of FHLBank membership. FHFA received and reviewed more than 1,300 public comments on its proposed rule and expects to issue a final rule in FY 2016.

3. Promoting Diversity and Inclusion

During FY 2016, FHFA will continue to build a strong, diverse and cohesive team committed to the efficient achievement of FHFA's strategic goals. FHFA recently finalized a ***strategic plan for its Office of Minority and Women Inclusion*** (OMWI), and FHFA is in the process of implementing this plan. The plan aims to foster a work environment that leverages diverse perspectives and encourages collaborative approaches to achieve business success. FHFA's diversity and inclusion strategic goals and objectives will be achieved through the development of annual operational plans and measured through specific performance metrics. FHFA has three key activities that will be implemented in FY 2016:

- FHFA will issue and seek comment on a proposed rule that would require all regulated entities to include diversity and inclusion in their strategic planning process. The regulation will set out FHFA's expectations for compliance with HERA, including more robust reporting requirements to FHFA on elements of each regulated entity's diversity and inclusion strategic plan;
- FHFA plans to develop a diversity and inclusion examination program and develop an examination module for reviewing the diversity and inclusion programs of the regulated entities; and
- In FY 2016, FHFA will develop and issue Equal Employment Opportunity (EEO) standards designed to establish a framework for providing an equitable workplace that supports equality in workplace practices throughout all stages of employment. These standards will foster principles of diversity and inclusion by ensuring that FHFA leadership is equipped with knowledge and understanding of EEO principles and competencies necessary to carry out the strategic objectives at key stages of employment.

FINANCIAL SUMMARY

Analysis of Financial Statements

Overview

FHFA prepares annual consolidated and combined financial statements for the Agency in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for Federal Government entities. The Office of Inspector General has maintained its own Agency Location Code and set of books since April 2011. The U.S. Government Accountability Office (GAO), per HERA, performs an independent audit of the consolidated and combined financial statements.

FY 2015 Financial Statements Audit

FHFA achieved an unmodified (clean) opinion from the GAO on its annual financial statements. GAO noted no material weaknesses or significant deficiencies in FHFA's internal controls and cited no instances of noncompliance with laws and regulations.

Understanding the Financial Statements

The principal financial statements present FHFA's financial position, net cost of operations, changes in net position, and budgetary resources for fiscal years 2015 and 2014 (See Summary below). Financial statements and notes for fiscal years 2015 and 2014 appear on pages 74-95. Highlights, discussion, and analysis of the financial information presented in the principal financial statements follows.

FINANCIAL STATEMENTS SUMMARY

Condensed Balance Sheets *(dollars in thousands)*	FY 2015	FY 2014	Percent Change
Fund Balance with Treasury	$ 13,634	$ 12,161	12%
Investments	$ 62,055	$ 63,951	-3%
Accounts Receivable	$ 36	$ 100	-64%
Advances and Prepaid Charges	$ 1,745	$ 1,109	57%
Property, Equipment, and Software, Net	$ 26,929	$ 30,994	-13%
Other Assets	$ 1,167	$ 0	NA
Total Assets	**$ 105,566**	**$ 108,315**	**-3%**
Accounts Payable	$ 8,012	$ 10,209	-22%
Other Liabilities	$ 6,778	$ 9,078	-25%
Unfunded Leave	$ 11,286	$ 11,291	0%
Deferred Lease Liability	$ 26,921	$ 25,814	4%
FECA Actuarial Liability	$ 66	$ 0	NA
Total Liabilities	**$ 53,063**	**$ 56,392**	**-6%**
Cumulative Results of Operations	$ 52,503	$ 51,923	1%
Total Net Position	**$ 52,503**	**$ 51,923**	**1%**
Total Liabilities and Net Position	**$ 105,566**	**$ 108,315**	**-3%**

Condensed Net Costs *(dollars in thousands)*	FY 2015	FY 2014	Percent Change
Gross Cost	$ 251,049	$ 271,456	-8%
Less: Earned Revenue	$ 246,266	$ 239,258	3%
Net (Income from)/Cost of Operations	**$ 4,783**	**$ 32,198**	**-85%**

Overview of Financial Position

The Balance Sheet

The Balance Sheet presents, as of the end of the fiscal year, the recorded value of assets and liabilities retained or managed by FHFA. The difference between the assets and liabilities represents FHFA's net position.

Assets

The Balance Sheet reflects total assets of $105.6 million, a 3 percent decrease from FY 2014. Figure 12 summarizes FY 2015 total assets by component. FHFA's distribution of assets remains largely unchanged from FY 2014 with the exception of the Property, Equipment and Software category. The Property, Equipment, and Software category decreased $4.1 million, or 13 percent from FY 2014. The decrease is largely a result of depreciation expenses which amounted to $4.3 million in fiscal year 2015. FHFA disposed of obsolete software and equipment, and transferred leasehold improvements and equipment to the Consumer Financial Protection Bureau (CFPB) in connection with the 1625 Eye Street interagency agreement (see Note 9, Leases in the Notes to the Financial Statements). The results of the disposals and transfer was minimal to the net book value of the Property, Equipment, and Software category since the majority of these items were already fully depreciated.

When grouped together, Investments and Property, Equipment, and Software comprise 84 percent and 88 percent of total assets for 2015 and 2014, respectively. Investments remain FHFA's largest asset class, representing 59 percent of total assets. FHFA has the authority to invest in U.S. Treasury securities, which are normally held to maturity and carried at amortized cost. FHFA invested in one-day certificates issued by the U.S. Treasury. These investments represent the efficient use of idle funds with minimum risk. Investments equaled $62.1 million at fiscal year-end and decreased three percent from FY 2014. The second largest asset class is Property, Equipment, and Software at $26.9 million as of September 30, 2015, or 25 percent of FHFA's total assets.

The remainder of FHFA's assets is comprised of the Agency's Fund Balance with Treasury, Accounts Receivable, Advances and Prepaid Charges, and Other Assets.

The annual trend in FHFA's total assets for FY 2011 through FY 2015 is presented in Figure 13. FHFA's total assets spiked in FY 2012 due to an increase in Property, Equipment and Software. Leasehold improvements, furniture, fixtures, and equipment purchases associated with FHFA's move to the Constitution Center location account for the spike. FHFA's total assets have decreased since FY 2012 largely due to depreciation (which reduces Property, Equipment, and Software) and increased outlays (which reduces the Fund Balance with Treasury and Investments).

Liabilities

As of September 30, 2015, FHFA's liabilities totaled $53.1 million, a six percent decrease from FY 2014. Figure 14 summarizes the FY 2015 total liabilities by component. Deferred Lease Liability continues to be the largest component of total liabilities at 51 percent. Deferred Lease Liability consists of deferred rent and the Constitution

FIGURE 12: Distribution of Total Assets for FY 2015

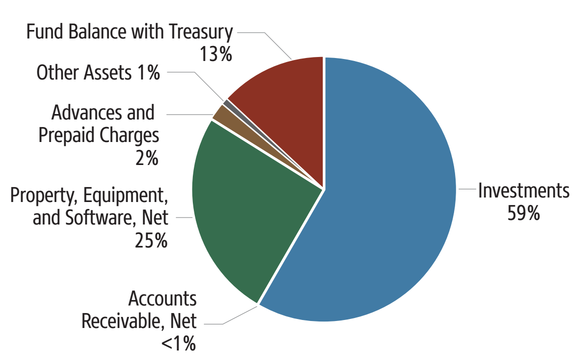
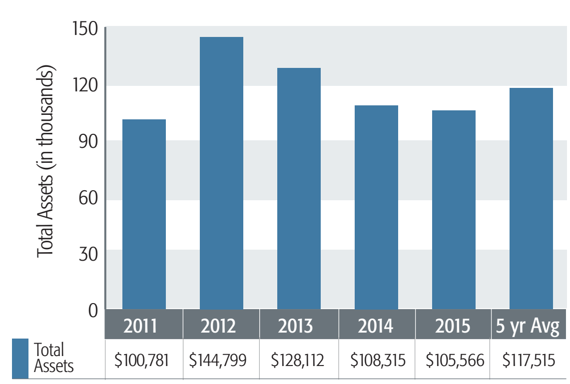


FIGURE 13: Trend in Total Assets, FY 2011-FY 2015



Center tenant allowance (the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease). Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight line method. This determination and recording of deferred rent is applicable to the lease agreements on the properties at 400 7th Street SW Constitution Center (Washington, DC), 1625 Eye Street NW (Washington, DC), and 5080 Spectrum Drive (Dallas, Texas). The next largest liability, Unfunded Leave, amounted to $11.3 million. FHFA's Accounts Payable, Other Liabilities, and Federal Employees' Compensation Act Actuarial Liability combined to total $14.9 million at fiscal year-end, down 23 percent from FY 2014. An estimated actuarial liability for future workers' compensation benefits is included for FY 2015.

The annual trend in total liabilities for FY 2011 through FY 2015 is presented in Figure 15. FHFA's total liabilities have been relatively constant over the last four years. A significant increase occurred in FY 2012 reflecting an increase in budgetary resources and deferred lease liabilities associated with leasing agreements for Constitution Center (Washington, DC).

Net Position

FHFA's net position represents the cumulative net excess of revenue over the cost of operations since the inception of the Agency. FHFA's net position as of September 30, 2015 amounted to $52.5 million, a 1 percent increase from FY 2014.

Statement of Net Cost

The Statement of Net Cost presents the components of FHFA's net cost of operations, which is the gross cost incurred less any revenues earned. FHFA's net cost of operations is the gross costs (all funds expended during a fiscal year regardless of when the funds were obligated) less revenue collected during the current fiscal year (assessments collected from the regulated entities, interest earned on investments, and funds collected from reimbursable agreements). The net cost of operations in FY 2015 for FHFA totaled $4.8 million as compared to $32.2 million in FY 2014. FHFA's gross costs exceeded earned revenue for FY 2015 and 2014 due to timing differences. FHFA's revenue is the result of assessments from the Regulated Entities related to FHFA's operating budget for a given year. Goods and services are then obligated for that given budget year. However, if all or part of the costs associated with those obligations are paid in the following year, a timing difference exists between gross costs and earned revenues. The five-year trend in FHFA's gross costs and revenue from FY 2011 through 2015 is presented in Figure 16.

Pursuant to HERA, FHFA was established to supervise and regulate the housing GSEs. The regulated entities include Freddie Mac, Fannie Mae and the 11 FHLBanks. The number of FHLBanks reduced from 12 banks to 11 on May 31, 2015 as the result of a merger between the FHLBank of Seattle and FHLBank of Des Moines. FHFA tracks program costs to the strategic goals developed for FHFA's strategic plan. Strategic Goals, 1 – Safety and Soundness; 2 – Liquidity, Stability, and Access; and 3 – Conservatorship, guide program offices to carry out FHFA's vision and mission. FHFA has a

FIGURE 14: Distribution of Total Liabilities for FY 2015

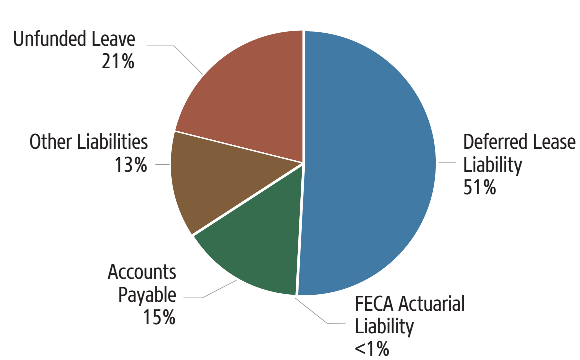


FIGURE 15: Trend in Total Liabilities, FY 2011-FY 2015

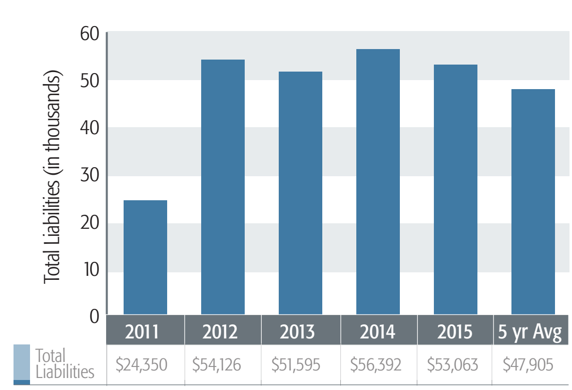
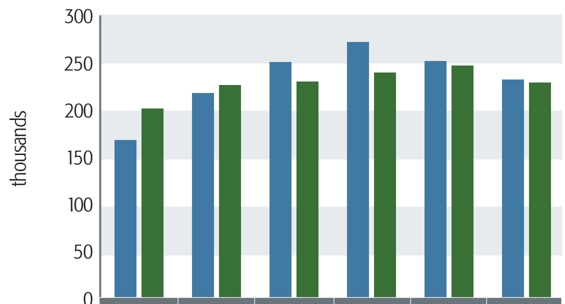


FIGURE 16: Trend in Gross Costs and Revenue, FY 2011-FY 2015



	2011	2012	2013	2014	2015	5 yr Avg
Gross Costs	$167,401	$217,501	$249,971	$271,456	$251,049	$231,476
Revenue	$200,783	$225,933	$229,390	$239,258	$246,266	$228,326

Resource Management Strategy, which is distributed proportionately to Strategic Goals 1 – 3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA-OIG costs are allocated to FHFA's Resource Management Strategy.

FHFA moved from four strategic goals presented in FY 2014 (1 – Safety and Soundness; 2 – Stability, Liquidity, and Access; 3 – Conservatorship, and 4 – Prepare for the Future) to three strategic goals presented this year as the result of FHFA's new Strategic Plan: Fiscal Years 2015 – 2019. The new and old strategic goals are not precisely equivalent. Therefore, the FY 2015 and FY 2014 Consolidated Statements of Net Cost are presented separately.

With the adoption of changes to strategic goals, for fiscal year 2015 FHFA changed the presentation of earned revenue to offset total gross program costs rather than allocating to each strategic goal. This change was made to better reflect the nature of the assessments which, as described in Note 1D of the Notes to the Financial Statements, are based on an allocation of total expected costs.

The distribution of FHFA's gross costs by strategic goal for FY 2015 is presented in Figure 17. Safety and Soundness is FHFA's largest program area at $143.9 million or 57 percent of total gross costs. As regulator of the FHLBank System and regulator and conservator of the Enterprises, FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA uses a risk-based approach to conducting supervisory examinations, which prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or to its compliance with applicable laws and regulations. FHFA conducts on-site examinations at the regulated entities, ongoing risk analysis, and off-site review and monitoring. In addition, FHFA communicates supervisory standards to the regulated entities, establishes expectations for strong risk management, identifies risks, and requires remediation of identified deficiencies.

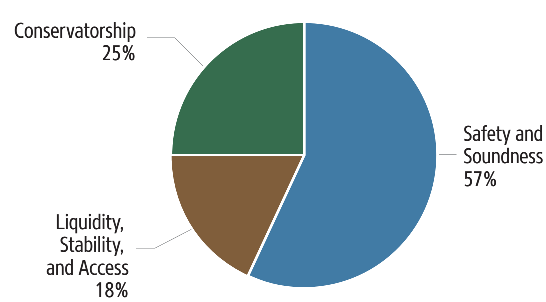
The next largest program area is Conservatorship at $62.8 million or 25 percent of total gross costs. FHFA is focused on managing the Enterprises' ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure for the Enterprises.

Liquidity, Stability, and Access is the final program area at $44.4 million or 18 percent of total gross costs. For both the FHLBank System and the Enterprises, FHFA has the statutory obligation to foster "liquid, efficient, competitive, and resilient national housing finance markets," while ensuring that the regulated entities meet their fundamental safety and soundness obligations. To achieve these goals, FHFA will work to ensure liquidity and promote stability in the housing finance markets and expand access to housing finance to all qualified financial institutions and credit-worthy borrowers.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. Financing sources increase net position. FHFA's financing source is imputed financing from costs absorbed on FHFA's behalf by

FIGURE 17: Distribution of Gross Costs by Strategic Goal, FY 2015



other Federal agencies. FHFA's cumulative results of operations (net position) for the period ending September 30, 2015, increased $.6 million.

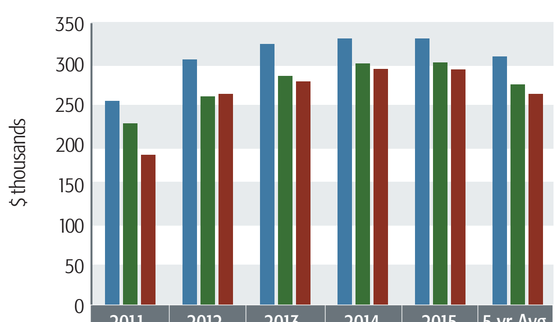
Statement of Budgetary Resources

This statement provides information about the budgetary resources available to FHFA, the status of these resources and the outlay of budgetary resources for the years ending September 30, 2015 and 2014. FHFA's budgetary resources include unobligated funds carried forward, recoveries of prior year obligations, assessment collections from the regulated entities, and spending authority from offsetting collections. The statement shows that FHFA had $330.8 million in total budgetary resources for the 12 months ended September 30, 2015 compared to $330.9 million in FY 2014. Obligations incurred (includes amounts of orders placed, contracts awarded, and services received) increased less than one percent to $301.2 million. Gross outlays (actual payments made) decreased by $0.4 million to $292.5 million. FHFA's five-year trend in budgetary resources, obligations incurred, and gross outlays is reflected in Figure 18.

Source of Funds

HERA authorizes FHFA to collect annual assessments against the Enterprises and the FHLBanks to cover the costs and expenses of the Agency's operations for supervision of the regulated entities and to maintain a working capital fund.

FIGURE 18: Trend in Budgetary Resources, Obligations Incurred, and Gross Outlays, FY 2011-FY 2015



	2011	2012	2013	2014	2015	5 yr Avg
Budgetary Resources	$253,568	$304,635	$324,123	$330,891	$330,838	$308,811
Obligations Incurred	$225,896	$259,100	$284,684	$299,984	$301,167	$274,166
Gross Outlays	$186,945	$262,252	$277,649	$292,935	$292,547	$262,466

Per FHFA's assessment regulation, FHFA calculates the assessments for each Enterprise by determining the proportion of each Enterprise's assets and off-balance sheet obligations to the total for both Enterprises and then applying each of the Enterprise's proportion (expressed as a percentage) to the total budgeted costs for regulating the Enterprises. FHFA calculates the assessments for each FHLBank by determining each FHLBank's share of minimum required regulatory capital as a percentage of the total minimum capital of all the FHLBanks and applying this percentage to the total budgeted costs for regulating the banks.

Assessments are paid semiannually on October 1 and April 1. FHFA collected assessments of $241.4 million during FY 2015, which included a $46.7 million assessment for costs related to the operations of the Office of the Inspector General.

Limitations of the Financial Statements

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

Analysis of Systems, Controls and Legal Compliance

Management Assurances

Federal Managers' Financial Integrity Act

During FY 2015, FHFA adhered to the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls (ECIC) met quarterly to oversee internal controls and provide recommendations to the FHFA Director on the effectiveness of FHFA's internal controls.

In 2015, the ECIC members were the Acting Chief Operating Officer who served as the Chairman, the Chief Financial Officer who served as the Vice-Chairman, the Chief Information Officer, the Deputy Director Division of Conservatorship, the Deputy Director for Bank Regulation, the Deputy Director for Enterprise Regulation, the Deputy Director for Housing Mission and Goals, and the General Counsel. The ECIC also coordinated with the divisions and offices to establish assessment teams to assess the internal controls.

During FY 2015, pursuant to the obligations and spirit of OMB Circular A-123, FHFA monitored and assessed the following three areas:

Reliability over Financial Reporting

FHFA's Office of Budget and Financial Management assessed the Agency's financial reporting controls using a risk-based approach.

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 the submissions.

Effectiveness and Efficiency of Operations

Assessment teams from FHFA divisions and offices reviewed controls over operations using the criteria outlined in the GAO Internal Control Management and Evaluation Tool. Division management officials and the Office of Budget and Financial Management reviewed the completed assessments.

The ECIC reviewed documentation from all three areas. In compliance with the FMFIA requirements, the FHFA Director, on the basis of a recommendation from the ECIC, provided reasonable assurance that internal controls over the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and financial reporting as of September 30, 2015 were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

To ensure compliance with the internal control requirements of FMFIA and OMB Circular A-123, the FHFA-OIG has formed an ECIC, co-chaired by the Deputy Inspector General for Internal Controls and Facilities with the Financial Management Advisor, and established a senior assessment team which assesses those controls. The assessment team includes the Principal Deputy Inspector General, Chief of Staff, Chief Counsel, all Deputy Inspectors General, and the Budget and Finance Director. The Office of Counsel (OC), under the Chief Counsel's direction, is FHFA-OIG's principal authority on legal matters pertaining to FHFA-OIG activities, duties, and authorities, and therefore works to ensure that all FHFA-OIG activities are conducted in accordance with applicable legal requirements. FHFA-OIG has also developed rules, policies, and procedures to ensure its full compliance with such requirements; no FHFA-OIG office reported any substantive deviations therefrom. Based on these facts and the controls assessments performed by each FHFA-OIG office, the FHFA-OIG ECIC members determined that the FHFA-OIG's A-123 efforts provide reasonable assurance that FHFA-OIG complies in all material respects with applicable laws and regulations. Therefore, the FHFA-OIG ECIC recommended that the Inspector General sign an assurance statement to the FHFA Director recommending an unqualified statement of assurance relative to the three areas assessed by the FHFA-OIG: internal control over financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations.

Federal Management Information Systems and Strategy

Section 1316(g)(3) of the Safety and Soundness Act requires FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FHFA, including FHFA-OIG, uses the Bureau of the Fiscal Services for its accounting services and that Agency's financial management system (FMS) which includes (1) a core accounting system—Oracle Federal Financials; (2) four feeder systems— Procurement Request Information System Management (PRISM), Concur (travel), Invoice Processing Platform (payments), and Citidirect (charge card); (3) a reporting system—Discoverer; and (4) an inventory tracking system. FHFA is responsible for overseeing the Bureau of the Fiscal

Services' performance of accounting services for the Agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of the Fiscal Services. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of Safety and Soundness Act Section 1316 (g) (3). FHFA also uses the National Finance Center (a service provider within the Department of Agriculture) and the Interior Business Center (a service provider within the Department of Interior) for its payroll and personnel processing. FHFA has streamlined accounting processes by electronically interfacing data from charge cards, investment activities, the Concur travel system, the PRISM procurement system, the Invoice Processing Platform

payments system, the National Finance Center payroll system, and the Interior Business Center payroll system to FMS.

Federal Information Security Management Act

The Federal Information Security Modernization Act (FISMA) of 2014, which is an update to the Federal Information Security Management Act, passed in 2002, requires all Federal agencies to develop and implement an agency-wide information security program. FISMA provides a framework to establish and maintain a minimum set of security controls to protect the Agency's information, operations, and assets.

FHFA's information security program continues to mature and reflect improvements made to increase the Agency's security posture through continuous monitoring and enhanced automation.

The continuous monitoring program permits FHFA to proactively monitor the security posture of its information technology infrastructure through the implementation of operational, management, and technical controls, including automated and advanced security tools as well as supplemental resources for monitoring activities. These tools and activities include the FHFA Security Assessment and Authorization process for evaluating information systems before they become operational; reviewing system logs and configuration management activities; and conducting periodic vulnerability scans.

During FY 2015, information security program activities included updating information security policies and procedures; performing annual security control assessments of FHFA information systems; updating the vulnerability management program; conducting independent penetration testing; developing and distributing monthly non-technical cyber security newsletters to all employees to enhance user awareness; and conducting a security symposium to provide security awareness training to FHFA employees and contractors. FHFA also addressed security-related system weaknesses noted in prior security reviews and audits.

The FHFA-OIG contracted with an independent external audit firm to conduct the FY 2015 FISMA audit of the FHFA Information Security Program. The auditors determined that FHFA has sound controls for its Information Security Program. The external auditor also concluded that FHFA's Information Security Program was generally compliant with FISMA, other Federal legislation, and applicable OMB guidance, as well as with National Institute of Standards and Technology (NIST) guidance. The auditors identified two findings where FHFA's security practices could be improved to further strengthen its information security program. During FY 2015, FHFA closed 12 of 15 prior year FISMA audit recommendations.

The FHFA-OIG operates its own network, systems and related information security programs that are independent from those of the Agency. The FHFA-OIG conducted an independent evaluation of its information security program consistent with FISMA. This evaluation was performed by the independent external audit firm as well.

For the FHFA-OIG information security program, the external auditor concluded that FHFA-OIG generally had sound controls for its Information Security Program and has implemented security controls in all 10 Department of Homeland Security IG FISMA performance metrics. In particular, strengths of the Information Security Program included well-documented information security policies and procedures. The independent external auditor identified two control areas where opportunities exist to further strengthen the FHFA-OIG's Information Security Program and better protect the confidentiality, integrity, and availability of its information and information systems. One matter was identified for management consideration, and the report made five recommendations to assist the FHFA-OIG in strengthening its Information Security Program. Overall, FHFA-OIG was compliant with FISMA, other Federal legislation, and applicable OMB guidance, as well as with NIST.

During FY 2015, FHFA-OIG successfully remediated three of four open control deficiencies and the one open recommendation noted in the FY 2013 FISMA audit, in addition to five of six open recommendations noted in the FY 2014 FISMA.

The corrective actions taken by the FHFA and the FHFA-OIG will be reviewed and verified by the auditor during the FY 2016 FISMA audits. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA-OIG information security programs.

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 2015, the dollar amount subject to prompt payment was $66.6 million. The amount of interest penalty paid in FY 2015 was $171.

SUMMARY OF FHFA EVALUATIONS

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

Every year, FHFA receives and responds to numerous evaluations. The primary evaluator of FHFA is the FHFA Office of Inspector General (OIG). FHFA is also periodically subject to other agencies' scrutiny (e.g., the Government Accountability Office, U.S. Office of Government Ethics, Federal Emergency Management Agency as well as other offices within FHFA (e.g., Office of Quality Assurance). The OIG also issues an annual assessment of FHFA's Management and Performance challenges. This is presented in the "Other Information" section of this PAR, on pages 100 - 110.

In FY 2015, FHFA responded to eight OIG evaluations/reviews and four GAO reports which have been listed below and then summarized with FHFA's response where applicable. (EVL 005 is not presented below because the OIG used the number for a unassociated report.)

OIG Evaluations/Reviews

1. *EVL-2015-001: Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities*
2. *EVL-2015-002: Impact of the Federal Reserve's Quantitative Easing Programs on Fannie Mae and Freddie Mac*
3. *EVL-2015-003: Women and Minorities in FHFA's Workforce*
4. *EVL-2015-004: FHFA's Oversight of Governance Risks Associated with Fannie Mae's Selection and Appointment of a New Chief Audit Executive (CAE)*
5. *EVL-2015-006: FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose*
6. *EVL-2015-007: Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations*
7. *COM-2015-001: FHFA's Implementation of Its Housing Finance Examiner Commission Program*
8. *COM-2015-002: FHFA Non-Career Employees Have Not Been Involved in FHFA's Freedom of Information Act Process*

GAO Evaluations

1. *GAO-15-147R: Federal Housing Finance Agency's Fiscal Years 2014 and 2013 Financial Statements*
2. *GAO-15-185: Mortgage Reforms: Actions Needed to Help Assess Effects of New Regulations*
3. *GAO-15-352: Collateral Requirements Discourage Some Community Development Financial Institutions (CDFIs) from Seeking Membership*
4. *GAO-15-435: Information on Governance Changes, Board Diversity, and Community Lending*

OIG Evaluations

EVL-2015-001: EVALUATION OF THE DIVISION OF ENTERPRISE REGULATION'S 2013 EXAMINATION RECORDS: SUCCESSES AND OPPORTUNITIES
The purpose of this evaluation was to assess FHFA's policies and practices for creating and maintaining examination documents in compliance with the Federal Records Act and FHFA's Records Management Policy.
OIG Findings
1. DER's 2013 examination records complied with established policies. 2. The examination recordkeeping practices do not support the efficient identification and retrieval of work papers.
OIG Recommendation
OIG recommends that FHFA adopt a comprehensive examination work paper index and standardize electronic work paper folder structures and naming conventions between Fannie Mae and Freddie Mac examination teams.
FHFA's Response
FHFA partially agreed with the recommendation and as noted in the OIG report, has successfully developed and implemented effective recordkeeping practices that comply with legal requirements and FHFA policies. To date, the organization of these work papers has not presented any issues for FHFA in accomplishing its mission. Nevertheless, FHFA committed to consider the costs and benefits of carrying out the recommendation, and FHFA completed its review in January 2015 identifying areas of improvement.

EVL-2015-002: IMPACT OF THE FEDERAL RESERVE'S QUANTITATIVE EASING PROGRAMS ON FANNIE MAE AND FREDDIE MAC
The purpose of this evaluation was to assess the Quantitative Easing (QE) programs on the Enterprises' recent financial performance and the potential implications for the Enterprises of the Federal Reserve's December 2013 decision to reduce or "taper" its Mortgage-Backed Securities (MBS) purchases.
OIG Findings
1. The combination of the Federal Reserve's QE programs and FHFA's decision to increase the Enterprises' guarantee fees contributed considerably to the Enterprise's financial performance in 2012 and 2013. Some of these contributions will bolster the Enterprises' financial performance over time. Specifically, the revenues that the Enterprises realized by packaging large amounts of refinanced mortgages into MBS subject to substantially increased guarantee fees in 2012 and 2013 will continue over the lifetime of the securities. 2. More recently, the Federal Reserve's decision in late 2013 to taper its MBS purchases appears to have contributed to higher mortgage rates which, in turn, contributed to significant reductions in the Enterprises' guarantee fee revenues on MBS issued in 2014. Continued tapering by the Federal Reserve and the eventual reduction of its massive MBS portfolio could have an adverse impact upon the Enterprises' financial performance. Under other scenarios, however, an improving economy and higher home prices could be of benefit to the Enterprises' financial performance.
OIG Recommendation
FHFA has a responsibility to monitor these issues and risks as well as anticipate their potential impact on the Enterprises.
FHFA's Response
No response is required. FHFA, the Enterprises and the Federal Reserve provided technical input for the report.

EVL-2015-003: WOMEN AND MINORITIES IN FHFA'S WORKFORCE

The purpose of this evaluation was to conduct a review of diversity and related workplace issues at FHFA.

OIG Findings

Where FHFA's human resources data systems provided sufficient data, OIG analyzed that data and reached the following conclusions:

1. Representation of Minorities and Women in the Workforce - FHFA improved in this area;
2. Employee Satisfaction Survey Results - on the issues regarding employee's views on diversity and associated workplace issues, the Agency's survey results improved between 2011 and 2013;
3. Performance Ratings - there were no statistically significant differences (those that are not likely due to error or chance) in performance ratings for senior level employees based on race, ethnicity or gender, although there were such differences favoring mid-level white employees over Asian employees in 2012 and 2013 and female employees over male employees in 2012 and 2013;
4. Bonuses - there were no statistically significant differences in the bonuses and other monetary awards given to mid-level employees in 2011 through 2013. However, FHFA data showed statistically significant differences in the bonuses and other monetary awards given to certain senior level employees that favored white employees over minority employees in 2013 but not in 2011 or 2012, although OIG cannot conclude that these disparities resulted from discrimination; and
5. OMWI's Role within FHFA - The Office of Minority and Women Inclusion (OMWI) has submitted annual reports to Congress on its diversity efforts, conducted diversity training, and initiated a number of other efforts to increase diversity. However, FHFA has not acted on some of OMWI's proposals concerning diversity and workforce issues.

OIG Recommendations

OIG recommends that FHFA:

1. Test the new human resource system to ensure that it will provide data sufficient to enable the Agency to perform comprehensive analyses of workforce issues;
2. Regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions;
3. Adopt a diversity and inclusion strategic plan; and
4. Research opportunities to partner with inner-city and other high schools, where feasible, to ensure compliance with HERA.

FHFA's Response

FHFA agreed with OIG's recommendations and identified specific actions to address them. FHFA launched its new Human Resource Information System (HRIS) in September 2015. FHFA will analyze its workforce data once the HRIS is fully implemented. FHFA adopted a diversity and inclusion strategic plan in July 2015. Also, OMWI and OHRM will meet to explore partnering with inner-city and other high schools during 2015.

EVL-2015-004: FHFA'S OVERSIGHT OF GOVERNANCE RISKS ASSOCIATED WITH FANNIE MAE'S SELECTION AND APPOINTMENT OF A NEW CHIEF AUDIT EXECUTIVE (CAE)

OIG evaluated FHFA's oversight of Fannie Mae's appointment of its Chief Audit Executive (CAE) in October 2013. The CAE directs Fannie Mae's Internal Audit department, which is tasked with providing independent, objective assurance of the Enterprise's governance, risk management, and control processes.

OIG Findings

1. Fannie Mae did not satisfy its obligations pursuant to its delegated authority from FHFA or the Institute of Internal Auditors Standards.
2. FHFA's oversight of Fannie Mae's appointment of the new CAE was ineffective.
3. Internal Audit's independence and objectivity was called into question for a significant period of time because of the absence of an assessment of the newly appointed CAE's conflicts with the CAE's former role of Chief Credit Officer and lack of plans to manage those conflicts.

OIG Recommendations

1. Implement a sufficiently robust internal communications process to ensure that the FHFA Director is informed of significant issues and concerns by FHFA staff.
2. Require the Fannie Mae Audit Committee to hold meetings relating to its oversight responsibilities, to address priority issues and risks, and to fully document these meetings via minutes.
3. Conduct an assessment of the Audit Committee's effectiveness, and the criteria used by the Board of Directors to assign and rotate committee membership.

FHFA's Response

FHFA agreed with the recommendations. The Agency will enhance existing structure to ensure that significant concerns relevant to decisions requiring the Director's attention are brought to the Director's attention. In April 2015, the agency issued a directive to Fannie Mae for retaining an independent third party to evaluate the Audit Committee's effectiveness. By May 29, 2015, FHFA had also (1) reviewed and updated its governance documents, and (2) communicated to Fannie Mae its expectations for enhancements to the Audit Committee process. FHFA will, by February 29, 2016 perform examination work to assess the criteria and processes Fannie Mae uses to select and rotate members of the committees of the Board of Directors.

EVL-2015-006: FHFA'S EXERCISE OF ITS CONSERVATORSHIP POWERS TO REVIEW AND APPROVE THE ENTERPRISES' ANNUAL OPERATING BUDGETS HAS NOT ACHIEVED FHFA'S STATED PURPOSE

Since 2013, the Enterprises have each been required to get FHFA approval of their annual budgets. OIG evaluated FHFA's process for approving the Enterprises' respective budgets.

OIG Findings

Late budget submissions, cursory-level analysis, and inadequate resources undermine FHFA's budget review process. FHFA's budget review process has not achieved FHFA's stated purpose of aligning Enterprise spending with FHFA's strategic direction and safety and soundness priorities.

OIG Recommendations

FHFA should:

1. Direct each Enterprise to submit its proposed operating budget and supporting materials for the next fiscal year so that FHFA has sufficient time before the fiscal year begins to adequately analyze the proposals.
2. Revise the existing budget review process and staff the review process with employees who have the qualifications and experience needed for critical financial assessments of the proposed Enterprise budgets to permit FHFA to determine whether each Enterprise's budget aligns with FHFA's strategic direction and its safety and soundness priorities.
3. Set a date certain during the first quarter of 2016 by which FHFA will take final action on each proposed annual operating budget for 2016 and approve the budget by that date.
4. Set a date certain, prior to January 31 of each subsequent fiscal year, by which FHFA will take final action on each proposed annual operating budget and approve the budget by that date.

FHFA's Response

FHFA approved changes to its budget review process in July 2015, and agreed with the first three recommendations and generally agreed with the fourth one. FHFA noted that the evaluation understated the substantial level of involvement in the formulation of the Enterprises' budgets by other FHFA divisions and disagreed with the OIG's statement related to the Enterprises' Boards of Directors' corporate governance incentives.

EVL-2015-007: INTERMITTENT EFFORTS OVER ALMOST FOUR YEARS TO DEVELOP A QUALITY CONTROL REVIEW PROCESS DEPRIVED FHFA OF ASSURANCE OF THE ADEQUACY AND QUALITY OF ENTERPRISE EXAMINATIONS
The OIG's objective was to determine whether FHFA established a formal quality control review process for its targeted examinations of the Enterprises.
OIG Findings
For almost four years, FHFA did not adopt a comprehensive internal quality control review process for its targeted examinations of the Enterprises.
OIG Recommendations
1. Ensure adopted procedures for quality control reviews meet the requirements of Supervision Directive (SD) 2013-01, and require DER to document results of quality control reviews. 2. Evaluate the effectiveness of the new quality control procedures one year after adoption.
FHFA's Response
FHFA agreed with the recommendations and also agreed that an independent quality control process was not timely developed and implemented. FHFA noted that the Office of Enterprise Supervision Operations, established in November 2014, has been developing a process for independent exam reviews. The process became effective in July 2015. FHFA will perform a review of the new procedures to ensure they meet all the requirements of SD-2013-01 and will document the findings of quality control reviews. FHFA will implement any new changes to current procedures by December 31, 2015 and evaluate the effectiveness of the new quality control procedures by the end of July 2016.

COM-2015-001: FHFA'S IMPLEMENTATION OF ITS HOUSING FINANCE EXAMINER COMMISSION PROGRAM
The Compliance Review overall objective was to determine whether FHFA management ensured the effective implementation of the Housing Finance Examiner (HFE) program from August 2013 to March 2015.
OIG Findings
1. FHFA did not possess records indicating that enrolled examiners were fulfilling on-the-job training (OJT) requirements.
OIG Recommendation
FHFA should determine the causes of the shortcomings identified by the OIG and implement a strategy to ensure that the HFE program fulfills its central objective of producing qualified commissioned examiners.
FHFA's Response
FHFA agreed with the recommendations and plans to do the following: 1. Enhance existing recordkeeping and communication mechanisms to communicate periodically to participating examiners and their managers' record of the remaining program requirements for each examiner. Procedures will be established by December 15, 2015. 2. Require enrolled examiners to prepare plans for completing HFE program requirements within reasonable timeframes which will be documented by the participant and his/her manager, require managers to review and approve these plans, and incorporate HFE commission requirements into performance management discussions. 3. Establish information reporting processes by December 15, 2015 to ensure that senior executives receive periodic updates on enrolled examiners' progress in meeting HFE program requirements. 4. By October 6, 2015, FHFA reviewed and determined all waiver documentation provided through June 30, 2015 was complete, and will determine by December 15, 2015 if additional waiver guidance is necessary. 5. Determine by November 5, 2015 whether and how to continue the requirement for cross-division OJT.

COM-2015-002: FHFA NON-CAREER EMPLOYEES HAVE NOT BEEN INVOLVED IN FHFA'S FREEDOM OF INFORMATION ACT PROCESS
The Freedom of Information Act (FOIA), which was enacted in 1966, allows the public to obtain information and records from federal executive agencies. On June 23, 2015 the Senate Committee on Homeland Security and Governmental Affairs asked FHFA's Office of Inspector General to determine whether "non-career" FHFA officials (defined by the OIG summary as presidential appointees who are confirmed by the Senate, as well as officials appointed pursuant to Schedule C of the excepted service) have been involved in the Agency's FOIA process and if so, whether the involvement had an adverse impact on the information provided to the public through the FOIA process.
OIG Findings
1. OIG reviewed FHFA's FOIA process and found no record that non-career officials were involved in the process. FHFA's General Counsel, Chief FOIA Officer, and FOIA Officer all stated that non-career officials have never attempted to involve themselves in the Agency's FOIA process. 2. OIG reviewed a sample of 20 FOIA requests that were partially denied or denied during the service of non-career officials and found no evidence that non-career officials attempted to influence FHFA's FOIA office's decisions. 3. OIG analyzed all of the FOIA-related litigation brought against FHFA and examined pleadings, papers and decisions in these cases and found no proof that suggested that non-career officials attempted to be involved with the Agency's FOIA process.
FHFA's Response
No response is required. FHFA provided technical input for the report.

GAO Evaluations

GAO-15-147R: FEDERAL HOUSING FINANCE AGENCY'S FISCAL YEARS 2014 AND 2013 FINANCIAL STATEMENTS
HERA established FHFA as an independent agency empowered with supervisory and regulatory oversight of the Enterprises, the Federal Home Loan Banks, and the Office of Finance. The act requires FHFA to annually prepare financial statements and requires GAO to audit the Agency's financial statements. GAO conducted its audits in accordance with U.S. Generally Accepted Government Auditing Standards.
GAO Findings
GAO found: (1) The FHFA's financial statements as of and for the fiscal years ended September 30, 2014, and 2013, are presented fairly, in all material respects, in accordance with U.S. GAAP; (2) FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014; and (3) no reportable noncompliance for FY 2014 with provisions of applicable laws, regulations, contracts, and grant agreements GAO tested.
FHFA's Response
In its written comments, FHFA accepted the audit conclusions and stated that it will continue to work to enhance its internal control and ensure the reliability of its financial reporting, its soundness of operations, and public confidence in its mission.

GAO-15-185: MORTGAGE REFORM- Actions Needed to Help Assess Effects of New Regulations
Congress included mortgage reform provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Consumer Financial Protection Bureau (CFPB) regulations establishing standards for the qualified mortgage (QM) loans became effective in January 2014. Six agencies jointly issued the final qualified residential mortgage (QRM) rule that will become effective in December 2015. GAO was asked to review possible effects of these regulations. This report (1) discusses views on the expected effects of the QM and QRM regulations, and (2) examines the extent of agency planning for reviewing the regulations' effects, among its objectives.
GAO Findings
Federal agency officials, market participants, and observers estimated that the QM and QRM regulations would have limited initial effects because most loans originated in recent years largely conformed with QM criteria. The analyses GAO reviewed estimated limited effects on the availability of mortgages for most borrowers and that any cost increases (for borrowers, lenders, and investors) would mostly stem from litigation and compliance issues. According to agency officials and observers, the QRM regulations were unlikely to have a significant initial effect on the availability or securitization of mortgages in the current market, largely because the majority of loans originated were expected to be QM loans. However, questions remain about the size and viability of the secondary market for non-QRM-backed securities. Agencies have begun planning their reviews of the QM and QRM regulations (due January and commencing December 2019, respectively); however, these efforts have not included elements important for conducting effective retrospective reviews. GAO recommended that the CFPB, the Department of Housing and Urban Development, and the six agencies responsible for the QRM regulations should complete plans to review the QM and QRM regulations, including identifying specific metrics, baselines, and analytical methods.
FHFA's Response
FHFA intends to work cooperatively with the other QRM agencies throughout the review process to address GAO's recommendation. After implementation of the rule in December 2015, FHFA will continue discussions with the other agencies to develop the work program for the initial review. Prior to the beginning of the formal review process, FHFA intends to actively monitor mortgage market conditions and trends, as well as consider the CFPB's evaluation of QM and any changes to the QM definition.

GAO-15-352: COLLATERAL REQUIREMENTS DISCOURAGE SOME COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIS) FROM SEEKING MEMBERSHIP
HERA made non-depository CDFIs eligible for membership in the FHLBank System. The System includes 11 regional FHLBanks that make loans, known as advances, to their members at favorable rates. Congressional leaders asked GAO to review the FHLBanks' implementation of HERA provisions relating to non-depository CDFIs. Among other things, this report discusses (1) challenges posed by membership and collateral requirements for non-depository CDFIs, and (2) FHFA and FHLBank efforts to facilitate broader non-depository CDFI participation in the System.
GAO Findings
Collateral requirements rather than membership requirements discouraged some non-depository CDFIs - loan or venture capital funds - from seeking membership in the FHLBank System. CDFIs are financial institutions that provide credit and financial services to underserved communities. Less than 6 percent of non-depository CDFIs (30 of 522) were members of the System as of December 2014. Requirements for membership (such as stock purchase amounts) can vary where regulation gives FHLBanks discretion, but the non-depository CDFIs GAO interviewed generally stated these requirements did not present a challenge. However, most FHLBanks imposed collateral requirements on non-depository CDFIs - such as haircuts (discounts on the value of collateral) - comparable with those for depository members categorized as higher risk. FHFA, which oversees the System, and the FHLBanks have facilitated efforts to broaden non-depository CDFI participation in the System by educating, and promoting membership to, non-depository CDFIs. FHFA encouraged the FHLBanks to hold a conference to discuss non-depository CDFI membership. Officials from 10 FHLBanks also stated that they had solicited applications from CDFIs. In late 2014, several FHLBanks amended stock purchase and collateral requirements to better accommodate non-depository CDFI membership and access to advances.
FHFA's Response
No response is required. FHFA provides technical comments to GAO for the report.

GAO-15-435: INFORMATION ON GOVERNANCE CHANGES, BOARD DIVERSITY, AND COMMUNITY LENDING

GAO was asked to review legislative changes to FHLBank governance and the diversity of the FHLBanks' boards of directors. This report discusses (1) the governance changes and their implementation, (2) FHLBank boards' diversity, (3) FHLBank and FHFA efforts to improve diversity, and (4) community lending programs and boards' oversight of them.

GAO Findings

Women and minority representation on FHLBank boards is limited (16 percent women vs 84 percent men and 10 percent racial or ethnic minority vs. 90 percent non-Hispanic white). A woman chaired 1 of 12 FHLBank boards but no ethnic minorities did. Most women and racial or ethnic minorities were independent directors in 2014 rather than member directors.

FHLBanks and FHFA have taken steps to increase board diversity. Since HERA's enactment, FHLBanks and their boards have developed processes to identify and nominate independent directors. GAO found that these processes generally followed several commonly cited practices for improving diversity, such as diversifying the applicant pools for directors. A 2009 FHFA rule encourages FHLBanks to consider diversity when selecting candidates, and a 2015 rule requires the FHLBanks to report information on board diversity in their annual reports. FHFA plans to begin evaluating board data and other information on outreach activities related to board diversity.

Community lending varies across the FHLBanks. For example, 6 of the 12 FHLBanks offer unique community lending programs in addition to the system- wide programs. Under the Community Investment Program, which provides funds for housing and economic development, 4 of the 12 FHLBanks used the funds for economic development in 2014. FHLBanks have committees that are responsible for overseeing these activities, and, according to GAO survey results, directors serving on these committees have greater responsibility for overseeing community lending programs.

FHFA's Response

No response is required. FHFA provided technical comments to GAO for the report.

MANAGEMENT REPORT ON FINAL ACTIONS

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports. The tables below (Figures 19, 20 and 21) provide information on final action taken by management on audit reports for FY 2015 (October 1, 2014, through September 30, 2015).

FIGURE 19: Management Report on Final Action on Audits with Disallowed Costs for FY 2015

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

FIGURE 20: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2015

Audit Reports		Number of Reports	Funds Put to Better Use
A.	Management decisions – Final action not taken at beginning of period	0	$0
B.	Management decisions made during the period	1	$5,100,000
C.	Total reports pending Final action during the period (A and B)	1	$5,100,000
D.	Final action taken during the period:		
	1. Value of recommendations implemented (completed)	1	$5,100,000
	2. Value of recommendations that management concluded should not or could not be implemented or completed	0	$0
	3. Total of 1 & 2	1	$5,100,000
E.	Audit reports needing final action at the end of the period	0	$0

FIGURE 21: Audit Reports without Final Actions But with Management Decisions over One Year Old for FY 2015

Management Action in Process		
Report No. and Issue Date	**Recommendation**	**Management Action**
FHFA FISMA Report (AUD-2014-019), Issued 9/26/2014	There are two recommendations. These two recommendations are multiyear projects.	Management action in progress.

FHFA STATEMENT OF ASSURANCE

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October 15, 2015

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2015

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.

FHFA conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's (OMB) Circular A-123, Management's Responsibility for 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, 2015 was operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

In addition, FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, using a risk based approach adapted from Appendix A of OMB Circular A-123. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2015 were operating effectively and no material weaknesses were found in the design and operation of the internal controls over financial reporting.

FHFA also conducted a review of its financial management system in the spirit of compliance with Appendix D of OMB Circular A-123. Based on the results of this review, FHFA can provide reasonable assurance that its financial management systems substantially complied with the requirements for federal financial management systems as of September 30, 2015.

Sincerely,

Melvin L. Watt
Director, FHFA

PERFORMANCE SECTION

- Performance Planning and Reviews
- Validation and Verification of Performance Data
- Strategic Goal 1: Ensure Safe and Sound Regulated Entities
- Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance
- Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships
- Resource Management

The Performance Section is organized by strategic goals to describe FHFA's efforts to meet the objectives defined in the Agency's *Strategic Plan for Fiscal Years 2015–2019*. This Strategic Plan outlines three strategic goals which are supported by nine performance goals and 22 performance measures. FHFA has also included a resource management strategy which presents 2 additional measures for a total of 24 performance measures. Figure 22 below illustrates the hierarchy of those goals and measures.

FIGURE 22: FHFA Goal Hierarchy

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

Performance Planning and Reviews

The Annual Performance Plan (APP) sets out performance measures and targets in support of the goals and objectives in the Strategic Plan. Developing the APP is a collaborative process that includes all FHFA offices and divisions. Strategic and performance goals are developed during the planning process and approved by the FHFA Director. Senior executive leaders develop performance measures, as well as the means and strategies, that describe how FHFA will assess progress towards the Agency's objectives.

During FY 2015, senior executives submitted quarterly reports on the progress made toward achieving performance measures and targets for which they were accountable. The Agency used these quarterly reports as the basis for developing the Performance and Accountability Report. These reports were reviewed and analyzed throughout the year to monitor progress toward achieving planned performance levels. See Figure 23 for an outline of FHFA's performance planning and review process.

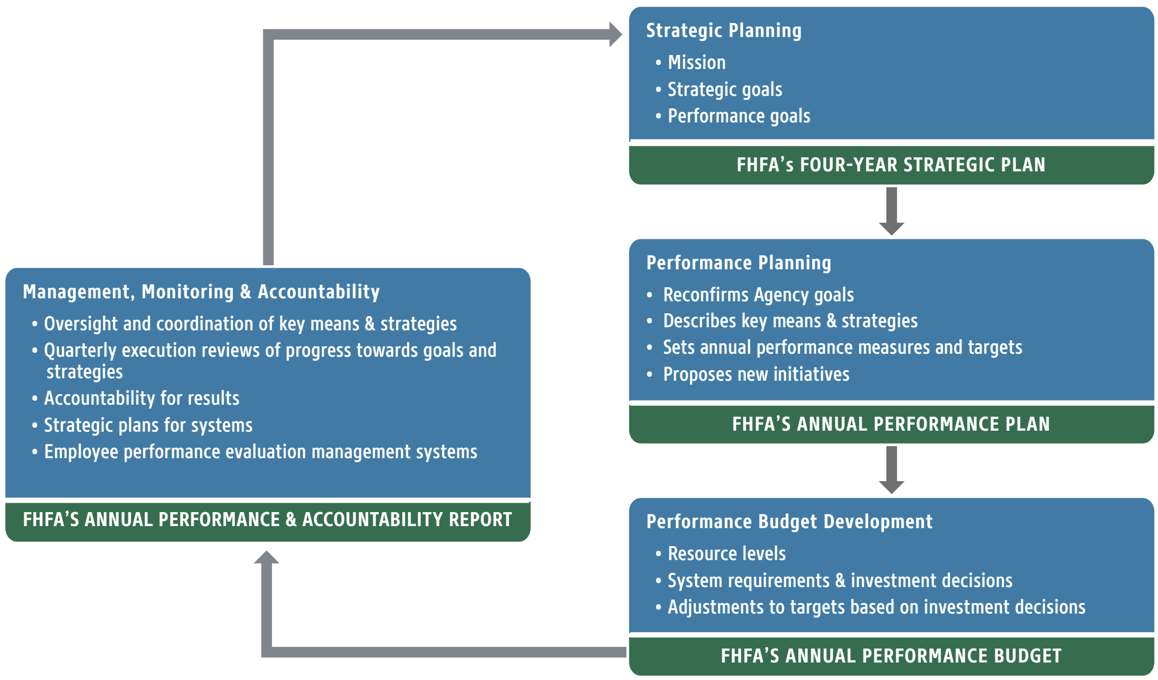
Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2015 PAR is complete and reliable, the sources of data are identified and verified. Each office or division collects measurement data and reports it in the Agency's performance tracking system. The reports are reviewed each quarter by the Agency's senior executive leadership. Additionally, FHFA staff documents the procedures used to obtain and validate the data to ensure the accuracy of the information.

During the performance tracking cycle, the following data are collected on each performance measure:

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

FIGURE 23: FHFA's Performance Planning and Review Process



STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITIES

In FY 2015, as regulator of the FHLBank System and regulator and conservator of the Enterprises, FHFA promoted safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA used a risk-based approach to conduct supervisory examinations, which prioritized examination activities based on the risk a given practice posed to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations.

PERFORMANCE GOAL 1.1: Assess the safety and soundness of regulated entity operations

Strategic Goal 1: Ensure Safe and Sound Regulated Entities		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
1.1.1	Ensure that written risk-based supervisory strategies and examination plans are in place prior to commencement of the examination cycle	N/A	**NOT MET**	**MET**	Enterprises: 100 percent of the time FHLBanks: 100 percent of the time	**MET**
1.1.2	Provide Reports of Examination to regulated entities within 90 days of completing examination work	N/A	N/A	**MET**	Enterprises: 100 percent of the time FHLBanks: 100 percent of the time	**NOT MET**
1.1.3	The FHLBanks maintain a quarterly Market Value of Equity-to-par ratio greater than or equal to one	N/A	N/A	**MET**	100 Percent of the time	**MET**
1.1.4	Determine the quarterly capital classification for each FHLBank and communicate the results to the FHLBanks by the end of the following quarter	N/A	N/A	**MET**	100 Percent of the time	**MET**

Performance Results

1.1.1: A supervisory plan for each of the regulated entities was developed based on prior supervisory work and assessment of emerging risks and new activities at the entities. Risk-based examinations focus FHFA resources on areas of the greatest risks. FHFA staff completed written risk-based supervisory strategies and examination plans for the Enterprises by January 28, 2015, prior to the commencement of the 2015 examination work. Supervisory strategies and risk-based scope memoranda were in place for each FHLBank and the Office of Finance prior to the examinations for each entity.

1.1.2: FHFA communicates supervisory results, findings and expectations for remedial action to the Enterprises, the FHLBanks and the Office of Finance through Reports of Examination (ROE). All Enterprise ROEs were finalized and issued to Fannie Mae and Freddie Mac in March 2015, which was within 90 days of completing examination work. Twelve reports for the FHLBanks and the Office of Finance were sent on-time during the year, and one report in the second quarter of FY 2015 was sent 97 days after the exit meeting, which was seven days late. The report review process has been adjusted to improve the timeliness of report delivery in the future.

1.1.3: The Market Value of Equity (MVE)-to-par ratio provides an indicator of each FHLBank's condition. An MVE-to-par ratio of 1.0 or above is desirable as it reflects an FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. During FY 2015, each FHLBank reported a market value greater than the par value of its capital stock.

1.1.4: During FY 2015, FHFA determined and communicated to each FHLBank its capital classification by the end of the following quarter.

PERFORMANCE GOAL 1.2: Identify risks to the regulated entities and set expectations for strong risk management						
Strategic Goal 1: Ensure Safe and Sound Regulated Entities		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
1.2.1	Issue written standards and criteria to the regulated entities for fraud reporting and fraud risk management	N/A	N/A	N/A	Enterprises: FY 2015 FHLBanks: FY 2015	MET
1.2.2	Issue guidance to the Enterprises on seller/servicer risk management	N/A	N/A	N/A	December 31, 2014	MET

Performance Results

1.2.1: FHFA issued *Advisory Bulletin AB-2015-01 on FHLBank Fraud Reporting* in February 2015, and *Advisory Bulletin AB-2015-02 on Enterprise Fraud Reporting* in March 2015. These advisory bulletins provide the regulated entities updated guidance on reporting fraud to FHFA in compliance with 12 CFR Part 1233 and for supervisory oversight purposes.

1.2.2: FHFA issued *Advisory Bulletin AB-2014-07 on Oversight of Single-Family Seller/Servicer Relationships* in December 2014. This advisory bulletin communicates FHFA's supervisory expectation that Fannie Mae and Freddie Mac maintain the safety and soundness of their operations by effectively managing counterparty risks. FHFA expects each Enterprise to assess financial, operational, legal, compliance, and reputation risks associated with its single-family seller/servicer counterparties and to take appropriate action to mitigate those risks.

PERFORMANCE GOAL 1.3: Require timely remediation of risk management weaknesses						
Strategic Goal 1: Ensure Safe and Sound Regulated Entities		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
1.3.1	Regulated entities complete remedial action for Matters Requiring Attention within agreed upon timeframes	N/A	N/A	N/A	Enterprises: 90 percent of the time FHLBanks: 90 percent of the time	MET

Performance Results

1.3.1: The regulated entities met the target of completing remedial action for the MRAs within the agreed-upon timeframes at least 90 percent of the time. The FHLBanks reported a 97% compliance rate and Fannie Mae and Freddie Mac both reported a 100% compliance rate.

STRATEGIC GOAL 2: ENSURE LIQUIDITY, STABILITY, AND ACCESS IN HOUSING FINANCE

For both the FHLBank System and the Enterprises, FHFA has the obligation to support liquidity and foreclosure prevention activities in the housing finance market in a safe and sound manner. Achieving that objective involves providing access to responsible mortgage credit across different market segments of creditworthy borrowers, offering sensible and appropriate loss mitigation options when borrowers fall into economic distress, and supporting affordable rental housing options.

PERFORMANCE GOAL 2.1: Ensure liquidity in mortgage markets

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
2.1.1	Review and communicate to the public, results of request for input on Fannie Mae and Freddie Mac guarantee fees	N/A	N/A	N/A	FY 2015	**MET**
2.1.2	Publish proposed Duty to Serve rule in the Federal Register	N/A	N/A	N/A	FY 2015	**NOT MET**

Performance Results

2.1.1: In April 2015, FHFA completed and communicated to the public the results of the request for input on Fannie Mae and Freddie Mac's guarantee fees. FHFA determined that current fees, on average, were at an appropriate level and that some modest adjustments to upfront guarantee fees were also appropriate.

2.1.2: FHFA did not publish a proposed Duty to Serve rule in the Federal Register in FY 2015. FHFA expects the proposed rule to be published in the Federal Register in the first quarter of FY 2016. This proposed rule will implement provisions of HERA that establish a duty for the Enterprises to serve very low-, low- and moderate-income families in manufactured housing, affordable housing preservation, and rural markets.

PERFORMANCE GOAL 2.2: Promote stability in the nation's housing finance markets

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
2.2.1	Publish private mortgage insurer eligibility requirements	N/A	N/A	N/A	FY 2015	**MET**
2.2.2	Publish updated minimum servicer eligibility standards	N/A	N/A	N/A	FY 2015	**MET**
2.2.3	Complete research projects as specified on FHFA's approved research agenda	N/A	N/A	N/A	Complete at least four research projects	**MET**
2.2.4	Continue publication of the monthly and quarterly FHFA House Price Index	N/A	N/A	N/A	Publish eight monthly and four quarterly releases	**MET**

Performance Results

2.2.1: The Private Mortgage Insurer Eligibility Requirements (PMIERs) were published on April 17, 2015. A subsequent update was published June 30, 2015. PMIERs are an important part of achieving a properly functioning mortgage market, where the Enterprises are adequately protected against the risk of default by mortgage insurance companies. Private mortgage insurers are one of the Enterprises largest counterparties, and ensuring that they maintain acceptable standards is crucial to stabilizing the housing finance market.

2.2.2: Fannie Mae and Freddie Mac published the updated minimum servicer eligibility standards on May 20, 2015. FHFA's press release notifying the public is available here: *New-Eligibility-Requirements-for-Seller/Servicers*. These standards will provide transparency, clarity, and consistency to industry participants and other stakeholders.

2.2.3: FHFA completed four research projects during FY 2015. The four publications are posted on FHFA's website for public viewing:

- *Working Paper 15-1: How Low Can House Prices Go? Estimating a Conservative Lower Bound* (published 5/14/2015);
- *Working Paper 15-2: The Margeinal Effect of First-Time Homebuyer Status on Mortgage Default and Prepayment* (published 7/9/2015);
- *Working Paper 15-3: Additional Market Risk Shocks Prepayment Uncertainty and Option-Adjusted Spreads* (published 7/22/2015); and
- *The Size of the Affordable Mortgage Market 2015-2017 Enterprise Single-Family Housing Goals* (published 8/19/2015).

2.2.4: FHFA published eight monthly and four quarterly *House Price Index (HPI)* releases during FY 2015. FHFA's indices are used by government economists, financial modelers, and industry observers. The indices provide detailed information about recent and long-term trends in home prices. This information is valuable for modeling credit risk and in understanding current trends in mortgage markets. HPI is also used to predict loan defaults and prepayments.

PERFORMANCE GOAL 2.3: Expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations and for qualified borrowers

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
2.3.1	Require the Enterprises to work to increase access to mortgage credit for creditworthy borrowers	N/A	N/A	N/A	Implement a 97 percent loan-to-value product during FY 2015	**MET**
2.3.2	Require the Enterprises to continue to encourage greater participation by small lenders, rural lenders, and state and local Housing Finance Agencies	N/A	N/A	N/A	Increase the number of participants by 20 entities by September 30, 2015	**MET**
2.3.3	Develop operational guidance to ensure that the regulated entities and the Office of Finance comply with statutory and regulatory requirements regarding their Office of Minority and Women Inclusion roles and responsibilities	N/A	N/A	N/A	FY 2015	**MET**

Performance Results

2.3.1: Both Enterprises met the target by implementing the 97 percent loan-to-value program on schedule. Fannie Mae implemented the program in the first quarter of FY 2015, and Freddie Mac implemented the program in the second quarter of FY 2015.

2.3.2: The Enterprises continue to add small lenders at a rate well above initial expectations. The Enterprises' increased focus on small lenders includes meeting with trade groups, providing direct training offerings, and improving customer service. The Enterprises together added 61 participants in FY 2015, and this accomplishment exceeds the target goal of 20 new participants.

2.3.3: FHFA developed operational guidance for the regulated entities during FY 2015. For example, the Agency developed a final rule to amend FHFA's regulation on minority and women inclusion to require the FHLBanks and the Office of Finance to include in the contents of their annual reports certain demographic information related to their boards of directors as well as a description of their related outreach activities during the reporting year (80 FR 25209, May 4, 2015). The rule became effective on July 6, 2015. FHFA also developed and delivered presentations to the FHLBanks and Office of Finance staff members to ensure compliance with the regulatory requirements. The Agency also developed written internal guidance for Fannie Mae and Freddie Mac on implementing their diversity and inclusion requirements.

STRATEGIC GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS

Since 2008, FHFA has served as conservator of Fannie Mae and Freddie Mac. Strategic Goal 3 is focused on managing the Enterprises' ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure for the Enterprises.

PERFORMANCE GOAL 3.1: Preserve and conserve assets

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
3.1.1	Maintain a qualified board of directors and Chief Executive Officer to oversee the implementation of Conservator objectives	N/A	N/A	N/A	95 percent of vacancies filled within 120 days	**MET**
3.1.2	2015 Conservatorship Scorecard provided to the Enterprises	N/A	N/A	N/A	March 31, 2015	**MET**

Performance Results

3.1.1: FHFA worked with the Enterprises to successfully maintain a full complement of board members and Chief Executive Officers (CEOs).

3.1.2: FHFA provided the Enterprises with the 2015 Conservatorship Scorecard in January 2015. The annual conservatorship scorecard sets goals for the Enterprises to implement the 2014 Conservatorship Strategic Plan. Providing it to the Enterprises in a timely manner increases the likelihood of achieving milestones for the upcoming year. Providing the scorecard earlier in the cycle allows the Enterprises' management to better plan and budget.

PERFORMANCE GOAL 3.2: Reduce taxpayer risk from Enterprise operations

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
3.2.1	Oversee reduction in retained portfolios consistent with the Preferred Stock Purchase Agreement	N/A	**MET**	**MET**	15 percent annually	**MET**
3.2.2	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	N/A	N/A	**MET**	December 31, 2014	**MET**

Performance Results

3.2.1: The objective of this performance measure is to contract the Enterprises' retained portfolios as set forth in the agreement with the U.S. Department of the Treasury. The Enterprises met the Preferred Stock Purchase Agreement requirements of reducing the unpaid principal balance of their retained portfolio of mortgage assets by 15 percent on an annual basis, which amounts to $399.5 billion by 2015 year-end. As of September 30, 2015 Freddie Mac's balance was $367.1 billion and Fannie Mae's balance was $370.4 billion.

3.2.2: In the first quarter of FY 2015, FHFA oversaw the Enterprises' implementation of two or more different types of single-family mortgage credit risk-sharing transactions. Fannie Mae had three types: two debt transactions (both in late November 2014), one insurance transaction (November 2014), and one recourse deal (lasting from September through December 2014). Freddie Mac had two types: two debt transactions (both in late October 2014) and one insurance transaction (November 2014).

PERFORMANCE GOAL 3.3: Build a new single-family securitization infrastructure						
Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
3.3.1	Oversee release by Common Securitization Solutions of a new version of the Common Securitization Platform software (with updated interfaces and capabilities) for the Enterprises to test	N/A	N/A	N/A	June 30, 2015	**MET**
3.3.2	Issue a progress report on the status of the Single Security initiative, including updated information on the features, disclosure standards, and related requirements	N/A	N/A	N/A	June 30, 2015	**MET**

Performance Results

3.3.1: To further the objective of creating a shared securitization infrastructure, FHFA continued its direction to the Enterprises to develop a Common Securitization Platform (CSP). New versions of CSP (Versions 4 and 5), including updated interfaces and capabilities, were released to the Enterprises to test in January and April of 2015.

3.3.2: FHFA published ***An Update on the Structure of the Single Security,*** in May 2015, which provides details about how the Single Security will look and operate when they are issued by the CSP. The Single Security would be issued and guaranteed by either Enterprise through the CSP. The progress report requested further feedback from industry.

RESOURCE MANAGEMENT

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

Resource Management		FY 2012	FY 2013	FY 2014	FY 2015 Target	FY 2015 Results
RM1	FHFA's financial statements and Federal Information Security Management Act (FISMA) audits receive unqualified opinions with no material weaknesses or unacceptable risks	**MET**	**MET**	**MET**	100 percent	**MET**
RM2	Number of awards that are obligated with minority- and women-owned businesses	N/A	N/A	N/A	Increase from prior year	**MET**

Performance Results

RM1: For FY 2015, FHFA received a successful unmodified (clean) audit opinion with no material weaknesses on its financial statements. The audit opinion certifies that FHFA's financial statements present fairly FHFA's financial position, its net cost of operations, changes in net position, and budgetary resources in accordance with U. S. Generally Accepted Accounting Principles. The annual Federal Information Security Management Act (FISMA) audit for FHFA in FY 2015 identified no material weaknesses or significant deficiencies.

RM2: FHFA increased the number of awards that are obligated with minority- and women-owned businesses as compared with FY 2014. This increase is important because FHFA promotes diversity and ensures the inclusion of minorities and women in all of the Agency's business and activities, including management, employment and contracting.

FINANCIAL SECTION

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

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Mark Kinsey

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2015 financial statements from the Government Accountability Office (GAO). In its financial statements audit report, GAO concluded that 1) FHFA's FY 2015 financial statements are fairly presented in all material respects; 2) FHFA had effective internal control over financial reporting; and 3) there were no reportable instances of noncompliance with the laws, regulations, and contracts it tested. Also, no material weaknesses or significant deficiencies were identified. FHFA has received an unmodified audit opinion every year since its inception as a new Agency in July 2008.

FHFA's commitment to maintain effective programs of internal control over Agency activities provides a solid foundation for GAO's audit opinion. Internal assessments conducted using a risk-based approach adapted from OMB Circular A-123, "Management's Responsibility for Internal Control" provided assurance that the Agency's internal controls over financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations as of September 30, 2015 were operating effectively and no material weaknesses were found in their design or operation.

We are proud of our unblemished record of obtaining clean audit opinions on our financial statements. Our record demonstrates a sustained Agency-wide focus on the effective management of our financial resources which strengthens the public's confidence in FHFA's important mission.

Sincerely,

Mark Kinsey

Mark Kinsey
Chief Financial Officer
November 16, 2015

INDEPENDENT AUDITOR'S REPORT

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Independent Auditor's Report

To the Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2015 and 2014 financial statements of the Federal Housing Finance Agency (FHFA), we found

- the FHFA financial statements as of and for the fiscal years ended September 30 2015, and 2014, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015; and
- no reportable noncompliance for fiscal year 2015 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

In accordance with the Housing and Economic Recovery Act of 2008 (HERA),[3] we have audited FHFA's financial statements. FHFA's financial statements comprise the balance sheets as of September 30, 2015, and 2014; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited FHFA's internal control over financial reporting as of September 30, 2015, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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

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

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

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

Management's Responsibility

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2015, based on its evaluation, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

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

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal control over financial reporting. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.[4]

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on Financial Statements

In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2015, and 2014, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

FHFA Reporting Entity

As discussed in note 1A of the financial statements, FHFA's fiscal years 2015 and 2014 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA.[5] FHFA's goal in placing the two entities into conservatorship was to stabilize them with the objective of maintaining normal business operations and restoring safety and soundness. The Department of the Treasury (Treasury) has provided Fannie Mae and Freddie Mac about $188 billion in direct financial support. Shortly after Fannie Mae and Freddie Mac were placed in conservatorship, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of these entities would not be

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

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

included in the consolidated financial statements of the federal government or those of Treasury, although Treasury records in its financial statements an asset for its investment in Fannie Mae and Freddie Mac.

In making this determination, OMB and Treasury concluded that because the entities were not listed in the "Federal Programs by Agency and Account" section of the federal government's budget, and because the nature of the conservatorships and the federal government's ownership and control were considered to be temporary, the entities did not meet the conclusive or indicative criteria for inclusion in the consolidated federal government's or Treasury's financial statements.[6] OMB reaffirmed this conclusion with respect to fiscal years 2009 through 2015. FHFA management concurred with this conclusion. Consequently, FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2015 and 2014 financial statements. Our opinion on FHFA's financial statements is not modified with respect to this matter.

Opinion on Internal Control over Financial Reporting

In our opinion, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, based on criteria established under FMFIA.

During our fiscal year 2015 audit, we identified deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[7] Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

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

[6]The conclusive and indicative criteria used in deciding what to include as part of a financial reporting entity are included in Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*.

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

Other Information

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

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2015 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHFA. Accordingly, we do not express such an opinion.

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

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

Agency Comments

We provided a draft of this report to FHFA for comment. In its written comments, reprinted in appendix II, FHFA accepted the audit conclusions and stated that it will continue to work to enhance its internal control and ensure the reliability of its financial reporting, its soundness of operations, and public confidence in its mission.

J. Lawrence Malenich
Director
Financial Management and Assurance

November 9, 2015

APPENDIX I: MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Federal Housing Finance Agency
Constitution Center
400 7th Street, S.W.
Washington, D.C. 20024
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Management's Report on Internal Control Over Financial Reporting

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

FHFA management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA management evaluated the effectiveness of FHFA's internal control over financial reporting as of September 30, 2015, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2015, FHFA's internal control over financial reporting was effective.

Melvin L. Watt
Director

Mark Kinsey
Chief Financial Officer

November 9, 2015

APPENDIX II: FHFA RESPONSE TO AUDITOR'S REPORT

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

November 9, 2015

Mr. J. Lawrence Malenich
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Malenich:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Housing Finance Agency's Fiscal Years 2015 and 2014 Financial Statements (GAO-16-95R). This report presents GAO's opinion on the fiscal years 2015 and 2014 financial statements of the Federal Housing Finance Agency (FHFA). The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2015, and GAO's evaluation of FHFA's compliance with laws and regulations.

I am pleased to accept GAO's unmodified opinion on the FHFA financial statements and to note that there were no material weaknesses or significant deficiencies identified during the fiscal year 2015 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal controls over financial reporting; and that there were no reportable instances of noncompliance with laws and regulations tested by GAO.

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

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

Sincerely,

Melvin L. Watt

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

FINANCIAL SECTION

FEDERAL HOUSING FINANCE AGENCY
Consolidated Balance Sheets

As of September 30, 2015 and 2014
(In Thousands)

	2015	2014
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 13,634	$ 12,161
Investments - Note 3	62,055	63,951
Accounts Receivable - Note 4	19	17
Advances and Prepaid Charges	435	169
Total Intragovernmental	76,143	76,298
Accounts Receivable - Note 4	17	83
Advances and Prepaid Charges	1,310	940
Property, Equipment, and Software, Net - Note 5	26,929	30,994
Other Assets - Note 6	1,167	–
Total Assets	**$ 105,566**	**$ 108,315**
Liabilities, Note 7:		
Intragovernmental		
Accounts Payable	$ 1,289	$ 2,638
Other Intragovernmental Liabilities - Note 8	2,015	1,966
Total Intragovernmental	3,304	4,604
Accounts Payable	6,723	7,571
Unfunded Leave	11,286	11,291
FECA Actuarial Liability	66	–
Deferred Lease Liabilities	26,921	25,814
Other Liabilities - Note 8	4,763	7,112
Total Liabilities	53,063	56,392
Net Position:		
Cumulative Results of Operations	52,503	51,923
Total Net Position	$ 52,503	$ 51,923
Total Liabilities and Net Position	**$ 105,566**	**$ 108,315**

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

FINANCIAL SECTION

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statement of Net Cost

For the Year Ended September 30, 2015
(In Thousands)

		2015
Gross Program Costs by Strategic Goal–Note 11:		
Safety and Soundness	$	143,878
Liquidity, Stability, and Access	$	44,353
Conservatorship	$	62,818
Gross Program Costs	$	251,049
Less: Total Earned Revenue not Attributable to Strategic Goals		(246,266)
Net (Income from)/Cost of Operations	**$**	**4,783**

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

FINANCIAL SECTION

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statement of Net Cost

For the Year Ended September 30, 2014
(In Thousands)

		2014
Program Costs by Strategic Goal–Note 11:		
Safety and Soundness:		
Gross Costs	$	145,068
Less: Earned Revenue		(114,996)
Net Safety and Soundness (Income from)/Cost of Operations	**$**	**30,072**
Stability, Liquidity, and Access:		
Gross Costs	$	54,786
Less: Earned Revenue		(51,595)
Net Stability, Liquidity, and Access (Income from)/Cost of Operations	**$**	**3,191**
Conservatorship:		
Gross Costs	$	51,235
Less: Earned Revenue		(46,260)
Net Conservatorship (Income from)/Cost of Operations	**$**	**4,975**
Prepare for the Future:		
Gross Costs	$	20,367
Less: Earned Revenue		(26,407)
Net Prepare for the Future (Income from)/Cost of Operations	**$**	**(6,040)**
Total Gross Program Costs	$	271,456
Less: Total Earned Revenue		(239,258)
Net (Income from)/Cost of Operations	**$**	**32,198**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2015 and 2014
(In Thousands)

	2015	2014
Cumulative Results of Operations:		
Beginning Balance	$ 51,923	$ 76,517
Other Financing Sources:		
Imputed Financing Sources	5,376	7,604
FOIA Collections (transfer out)	(13)	–
Total Financing Sources	5,363	7,604
Net Cost of Operations	(4,783)	(32,198)
Net Change	580	(24,594)
Cumulative Results of Operations	**$ 52,503**	**$ 51,923**
Net Position	**$ 52,503**	**$ 51,923**

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

FINANCIAL SECTION

FEDERAL HOUSING FINANCE AGENCY

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2015 and 2014
(In Thousands)

	2015	2014
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 30,907	$ 39,439
Recoveries of Prior Year Unpaid Obligations	7,800	10,205
Unobligated Balance From Prior Year Budget Authority, Net	38,707	49,644
Appropriations	241,386	234,907
Spending Authority From Offsetting Collections	50,745	46,340
Total Budgetary Resources	**$ 330,838**	**$ 330,891**
Status of Budgetary Resources:		
Obligations Incurred	$ 301,167	$ 299,984
Unobligated Balance, End of Year:		
Exempt from Apportionment	29,671	30,907
Total Unobligated Balance, End of Year	29,671	30,907
Total Budgetary Resources	**$ 330,838**	**$ 330,891**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 45,227	$ 48,383
Obligations Incurred	301,167	299,984
Outlays (Gross)	(292,547)	(292,935)
Recoveries of Prior Year Unpaid Obligations	(7,800)	(10,205)
Unpaid Obligations, End of Year (Gross)	46,047	45,227
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(22)	–
Change in Uncollected Payments, Federal Sources	(6)	(22)
Uncollected Payments, Federal Sources, End of Year	(28)	(22)
Obligated Balance, Start of Year, Net	**$ 45,205**	**$ $48,383**
Obligated Balance, End of Year, Net	**$ 46,019**	**$ $45,205**
Budget Authority and Outlays, Net:		
Budget Authority (Gross)	$ 292,131	$ $281,247
Actual Offsetting Collections	(50,739)	(46,318)
Change in Uncollected Customer Payments From Federal Sources	(6)	(22)
Budget Authority, Net	**$ 241,386**	**$ 234,907**
Outlays (Gross)	$ 292,547	$ 292,935
Actual Offsetting Collections	(50,739)	(46,318)
Outlays, Net	241,808	246,617
Distributed Offsetting Receipts	(241,386)	(234,907)
Agency Outlays, Net	**$ 422**	**$ 11,710**

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

FEDERAL HOUSING FINANCE AGENCY

Notes to the Financial Statements

For the Years Ended September 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Federal Housing Finance Agency (FHFA) was established on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). FHFA is an independent agency in the Executive branch empowered with supervisory and regulatory oversight of the 11 Federal Home Loan Banks (FHLBanks), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Office of Finance, all of which are referred to as Regulated Entities. The number of FHLBanks reduced from 12 banks to 11 on May 31, 2015 as the result of a merger between the FHLBank of Seattle and FHLBank of Des Moines. FHFA is responsible for ensuring that each Regulated Entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out their housing and community development finance missions.

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

Under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac under conservatorship on September 6, 2008 to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as Conservator, assumed the power of stockholders, boards, and management. Pursuant to the Agency's statutory authority as conservator, FHFA has provided directions that allow the Enterprise boards and management to conduct day-to-day operations. FHFA personnel monitor the operations of the enterprises.

In September 2008, after Fannie Mae and Freddie Mac were placed in conservatorship under the FHFA, the Office of Management and Budget (OMB) determined that the assets, liabilities and activities of the companies would not be included in the financial statements of the federal government. For fiscal year 2008, OMB and the Department of the Treasury (Treasury) concluded that Fannie Mae and Freddie Mac did not meet the conclusive or indicative criteria for a federal entity contained in OMB Circular A-136, *Financial Reporting Requirements*, and Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*, because they are not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," and because the nature of FHFA's conservatorships over Fannie Mae and Freddie Mac and the federal government's ownership and control of the entities is considered to be temporary. OMB continued to hold this view in the President's budget submissions to Congress. Consequently, the assets, liabilities, and activities of Fannie Mae and Freddie Mac have not been consolidated into FHFA's financial statements. However, Treasury records the value of the federal government's investments in Fannie Mae and Freddie Mac in its financial statements as a General Fund asset.

Both Fannie Mae and Freddie Mac, as represented by FHFA as their Conservator, entered into separate agreements with Treasury known as the Senior Preferred Stock Purchase Agreements (Agreements) on September 7, 2008. These two Agreements are identical and have since been amended on September 26, 2008, May 6, 2009, December 24, 2009, and August 17, 2012. The Agreements commit Treasury to provide funding for each Enterprise up to the greater of: (1) $200 billion; or (2) $200 billion plus the cumulative total of draws for each calendar quarter starting in 2010 minus any amount by which the assets of the Enterprise exceed its liabilities on December 31, 2012. This funding is to ensure that each Enterprise maintains a non-negative Net Worth, thereby avoiding a statutory requirement that an Enterprise be put in receivership following an extended period of negative Net Worth. Under the Agreements, each Enterprise submits

FINANCIAL SECTION

a request for any needed draw amount once their financials (to be published in their 10-K or 10-Q) are finalized. The Enterprise also submits a statement certifying compliance with Agreement covenants, which include limits on portfolio size and indebtedness. FHFA, in its role as Conservator, reviews any request for a draw and certifies that the request is available for funding under the Agreement. FHFA then sends a letter to Treasury requesting the draw amount prior to the end of the current quarter.

The August 17, 2012 amendment changed the dividend owed to Treasury from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance. Instead of continuing the circular practice of drawing money from Treasury each quarter in order to pay the dividends owed to Treasury, beginning on January 1, 2013, all of Fannie Mae's and Freddie Mac's future net income/profits above an established threshold will be distributed quarterly to Treasury as dividends. Cumulative draws by Fannie Mae and Freddie Mac on their Agreements with Treasury total $116.2 and $71.3 (dollars in billions), respectively. These draws are reported in Treasury's financial statements as investments. Neither Fannie Mae nor Freddie Mac has requested a draw since the first quarter of 2012.

B. Basis of Presentation

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

FHFA moved from four strategic goals presented in fiscal year 2014 (1 – Safety and Soundness; 2 – Stability, Liquidity, and Access; 3 – Conservatorship, and 4 – Prepare for the Future) to three strategic goals presented this year as the result of FHFA's new Strategic Plan: Fiscal Years 2015 – 2019. The new and old strategic goals are not precisely equivalent. Therefore, the fiscal year 2015 and fiscal year 2014 Consolidated Statements of Net Cost are presented separately.

Additionally, with the adoption of changes to strategic goals, for fiscal year 2015 FHFA changed the presentation of earned revenue to offset total gross program costs rather than allocating to each strategic goal. This change was made to better reflect the nature of the assessments which, as descirbed in Note 1D, are based on an allocation of total expected costs.

C. Basis of Accounting

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

D. Revenues, Imputed & Other Financing Sources

Operating revenues of FHFA are obtained through assessments of the Regulated Entities. The head of the Agency approved the annual budget for fiscal years 2015 and 2014 in August 2014 and 2013, respectively. By law, FHFA is required to charge semi-annual assessments to the entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the entities, plus amounts determined by the head of the Agency to be necessary for maintaining a working capital fund.

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

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

FHFA receives rental revenues related to an Interagency Agreement with the Consumer Financial Protection Bureau (CFPB) for use of office space leased by FHFA and related services. In fiscal year 2015, CFPB and FHFA extended the term of the lease. FHFA records the rental revenue on a straight line basis. FHFA changed to the straight line method from the cash method when the lease was extended in July 2015.

Federal government entities often receive goods and services from other federal government entities without reimbursing the providing entity for all the related costs. In addition, federal government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FHFA recognized imputed costs and financing sources in fiscal years 2015 and 2014 as prescribed by accounting standards. FHFA recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees accrued on FHFA's behalf by the Office of Personnel Management (OPM).

E. Use of Estimates

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

F. Fund Balance with Treasury

The 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 are comprised of semi-annual assessments, investment interest, collections on reimbursable agreements, employee administrative billing and collections, civil penalty monies and Freedom of Information Act (FOIA) request fees. FHFA is not authorized to retain employee administrative billing and collections, civil penalty monies or FOIA fees, and as such, records these as liabilities until transferred to the Treasury General Fund.

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

G. Investments

FHFA has the authority to invest in U.S. Treasury securities with maturities suitable to FHFA's needs. FHFA invests solely in U.S. Treasury securities. During fiscal years 2015 and 2014, FHFA invested in one-day certificates issued by the U.S. Treasury.

H. Accounts Receivable

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

I. Property, Equipment, and Software, Net

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

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

FHFA removed the bulk purchases threshold on May 13, 2014. Instead, FHFA records unit purchases when items acquired are above the capitalization threshold.

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

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

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

J. Advances and Prepaid Charges

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

K. Liabilities

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

FHFA reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities 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 represents amounts owed to employees for travel related expenses and another entity for goods ordered and received and for services rendered. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year. The Department of Labor (DOL) is the central paying agent for all workman compensation claims filed under the Federal Employees Compensation Act (FECA). Accrued FECA represents the amount FHFA is to reimburse DOL for claims paid to FHFA employees.

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

Deferred lease liabilities consist of deferred rent and the Constitution Center tenant allowance. Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight line method. This determination and recording of deferred rent is applicable to the lease agreements on the properties at 400 7th Street SW Constitution Center, 1625 Eye Street NW, and 5080 Spectrum Drive (See Note 9. Leases).

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

L. Employee Leave and Benefits

All full-time FHFA employees are entitled to accrue sick leave at a rate of four hours per pay period. Annual leave is accrued based on years of creditable federal service and military service, with the following exceptions: Former Office of Federal Housing Enterprise Oversight (OFHEO) employees hired between April 25, 2005 and July 30, 2008 accrue annual leave based on years of creditable federal and military service as well as years of relevant private sector experience (HERA abolished OFHEO when FHFA was established in July 2008). Additionally, FHFA employees hired into mission critical positions, EL-13 and above, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal agencies may also have been authorized to receive credit for private sector time. EL employees may carryover up to 240 hours of annual leave each year. The FHFA executive employees (LL's) equivalent to the Senior Executive Service (SES) employees may accrue annual leave consistent with the rules for SES level employees. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to the employee upon leaving federal service, based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon separation, any unused sick leave under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) is creditable towards an employee's annuity computation. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50 percent beginning October 28, 2009 and 100 percent beginning January 1, 2014.

Health Benefits and Life Insurance: FHFA, through programs established for all agencies by the federal government, offers its employees health and life insurance coverage through the Federal Employees Health Benefits (FEHB) Program and Federal Employees Group Life Insurance Program. The cost of each is shared by FHFA and its employees. FHFA pays 90 percent of the FEHB premium. In addition, all employees have 1.45 percent of gross earnings withheld to pay for Medicare coverage. High-earning employees pay an additional Medicare tax. The additional Medicare tax is calculated as .9 percent of gross earnings over the threshold amount based on their filing status.

M. Retirement Plans

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS, CSRS Offset, FERS (FERS is provided under calculations for both regular employees as well as law enforcement employees in the Office of the Inspector General), FERS-Revised Annuity Employee (RAE), or FERS-Further Revised Annuity Employee (FRAE). FHFA remits the employer's share of the required contribution, which is 13.2 percent for FERS, 28.8 percent for FERS Law Enforcement Officer, 11.1 percent for FERS-RAE and FERS-FRAE and 7.0 percent for CSRS and CSRS Offset. Prior to December 31, 1983, all eligible employees were covered under the CSRS program. Any employee hired from January 1, 1984 through December 31, 1986, were placed in CSRS Offset which served as an interim retirement plan until FERS was created on January 1, 1987. At that time, any employee who did not have five years of prior federal service under CSRS was automatically moved to FERS. As of January 1, 1987, hires to FHFA without previous Federal service are automatically covered under FERS. Employees covered by CSRS who leave the federal government and return with a break of service of one year or more after December 31, 1983 are subject to mandatory social security contributions and are placed under CSRS Offset. Effective January 1, 2013, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2012 is placed under FERS-RAE. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. Effective July 31, 2010, FERS employees are automatically enrolled in TSP equal to 3.0 percent of pay unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security.

FERS employees and CSRS Offset employees are eligible to receive Social Security benefits after retirement once they reach the full retirement age. Employees subject to social security withholdings currently contribute 6.2 percent. The 2015 maximum taxable wage base for Social Security is $118,500.

FHFA expenses its contributions to the retirement plans of covered employees as the expenses are incurred. As discussed in Note 1D, FHFA reports imputed (unfunded) costs with respect to retirement plans, health benefits and life insurance pursuant to guidance received from OPM. These costs are paid by OPM and not by FHFA. Disclosure is intended to provide information regarding the full cost of FHFA's program in conformity with U.S. generally accepted accounting principles.

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

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

N. Contingencies

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

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The funds in the working capital fund were fully invested during fiscal years 2015 and 2014. FBWT account balances as of September 30, 2015 and 2014 were as follows (dollars in thousands):

	2015	2014
Fund Balances:		
Operating Fund	$ 13,634	$ 12,161
Total	**$ 13,634**	**$ 12,161**
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 29,671	$ 30,907
Obligated Balance Not Yet Disbursed	46,018	45,205
Investments	(62,055)	(63,951)
Total	**$ 13,634**	**$ 12,161**

(See Note 13. Legal Arrangements Affecting Use of Unobligated Balances)

FINANCIAL SECTION

NOTE 3. INVESTMENTS

Investments as of September 30, 2015 consist of the following (dollars in thousands):

	Cost	Amortized (Premium)Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 62,055	$ –	$ –	$ 62,055	$ 62,055

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

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

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. FHFA is currently investing in one-day certificates issued by the U.S. Treasury. There were no amortized premiums/discounts on investments as of September 30, 2015 or 2014. Interest earned on investments was $25 thousand and $45 thousand for fiscal years 2015 and 2014, respectively.

FINANCIAL SECTION

NOTE 4. ACCOUNTS RECEIVABLE

Accounts Receivable balances as of September 30, 2015 and 2014 were as follows (dollars in thousands):

	2015	2014
Intragovernmental		
Accounts Receivable	$ 19	$ 17
Total Intragovernmental Accounts Receivable	**$ 19**	**$ 17**
With the Public		
Accounts Receivable	$ 17	$ 83
Total Public Accounts Receivable	**$ 17**	**$ 83**
Total Accounts Receivable	**$ 36**	**$ 100**

There are no amounts that are deemed uncollectible as of September 30, 2015 and 2014.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE, NET

Schedule of Property, Equipment, and Software as of September 30, 2015 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 23,735	$ 23,565	$ 170
Leasehold Improvements	35,006	8,367	26,639
Internal-Use Software	1,788	1,668	120
Software-in-Development	-	-	-
Construction-in-Progress	-	-	-
Total	**$ 60,529**	**$ 33,600**	**$ 26,929**

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

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

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

NOTE 6. OTHER ASSETS

Other Assets as of September 30, 2015 consist of the following (dollars in thousands):

	2015	2014
Straight Line Sublease Receivable	$ $1,167	$ –
Total Other Assets	**$ $1,167**	**$ –**

Other assets consists of an accrued receivable to recognize the differences between the cash basis and straight line method of recognizing revenue related to the reimbursable sublease of 1625 Eye Street NW to CFPB. (See Note 9. Leases)

NOTE 7. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

Liabilities Covered and Not Covered By Budgetary Resources as of September 30, 2015 consist of the following (dollars in thousands):

	Covered	Not-Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 1,289	$ –	$ 1,289
Other Intragovernmental Liabilities	2,015	–	2,015
Total Intragovernmental Liabilities	**$ 3,304**	**$ –**	**$ 3,304**
Accounts Payable	$ 6,723	$ –	$ 6,723
Unfunded Leave	–	11,286	$ 11,286
Deferred Lease Liabilities	–	26,921	$ 26,921
FECA Actuarial Liabilities	–	66	66
Other Liabilities	4,763	–	$ 4,763
Total Public Liabilities	**$ 11,486**	**$ 38,273**	**$ 49,759**
Total Liabilities	**$ 14,790**	**$ 38,273**	**$ 53,063**

Liabilities Covered and Not Covered By Budgetary Resources as of September 30, 2014 consist of the following (dollars in thousands):

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

NOTE 8. OTHER LIABILITIES

Current liabilities are amounts owed by a federal entity as the result of past transactions or events that are payable within the fiscal year following the reporting date. The other liabilities for FHFA are comprised of FECA liability, unemployment insurance liability, payroll accruals, payroll benefits payable, employer benefit contributions, advances and prepayments, contingent liability, and actuarial liability. Payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid. All Other Liabilities are considered current liabilities.

Other Liabilities as of September 30, 2015 and September 30, 2014 consist of the following (dollars in thousands):

	2015	2014
Intragovernmental Liabilities		
Funded FECA Liability	$ 15	$ 1
Payroll Benefits Payable	957	950
Advances and Prepayments	1,043	1,015
Total Intragovernmental Other Liabilities	**$ 2,015**	**$ 1,966**
With the Public		
Employer Benefit Contributions	$ 546	$ 636
Withholdings Payable	–	4
Accrued Funded Payroll	4,217	5,499
Contingent Liability	–	973
Total Public Other Liabilities	**$ 4,763**	**$ 7,112**

NOTE 9. LEASES

Current Operating Leases

1625 Eye Street NW

FHFA leases office space in Washington, DC at 1625 Eye Street NW. The lease terms of 1625 Eye Street were extended for a five year period beginning July 1, 2015 and expire on June 30, 2020. The lease is cancellable with a 12 month notice and no sooner than December 31, 2017. FHFA entered into an Interagency Agreement (IAA) with the Consumer Financial Protection Bureau (CFPB) on January 13, 2015 for CFPB's use of space and related services for the term of the lease extension. The IAA also included the transfer of ownership of FHFA's furniture, fixtures, equipment, including information technology equipment, and other supplies remaining at the premises to CFPB. CFPB has occupied the premises since April 1, 2012. The IAA expires on June 30, 2020 in conjunction with FHFA's lease expiration. CFPB will reimburse FHFA for the full cost of the lease expenditures.

400 7th Street SW – Constitution Center

FHFA entered into a lease for office space at 400 7th Street SW Constitution Center on January 31, 2011. FHFA took occupancy in January 2012. FHFA does not have the right to terminate the lease for the convenience of the government. FHFA may only exercise a one-time early termination at the end of the 10th year, contingent upon FHFA having less than 400 employees in the Washington DC area as of the date that is 20 months prior to the early termination date and representing that it reasonably believes it will have less than 400 employees in the DC area as of the termination date. The lease terms of 400 7th Street SW expire on January 31, 2027. In addition, the lease stipulates that FHFA shall pay additional rent for its share of increases in the operating expenses and real estate property taxes.

5080 Spectrum Drive

FHFA entered into a lease for office space at 5080 Spectrum Drive in Addison, Texas on April 23, 2012. FHFA took occupancy on August 16, 2012. FHFA does not have the right to terminate the lease for the convenience of the government. FHFA may only exercise a one-time early termination at the end of the 39th month following the commencement date of the lease. The written termination notice must be provided to the landlord nine months prior to the termination date. FHFA did not exercise the option to terminate early. The lease terms of 5080 Spectrum Drive expire on November 30, 2017.

300 N Los Angeles Street

FHFA-OIG entered into a lease for office space at 300 N Los Angeles Street, Los Angeles, CA on May 13, 2013. FHFA-OIG took occupancy on June 1, 2013. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The lease terms of 300 N Los Angeles Street expire on April 30, 2018.

501 E Polk Street

FHFA-OIG entered into a lease for office space at 501 E Polk Street, Tampa, FL on August 13, 2013. FHFA-OIG took occupancy on August 10, 2013. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The lease terms of 501 E Polk Street expire on August 9, 2023.

20 Washington Place

FHFA-OIG entered into a lease for office space at 20 Washington Place, Newark, NJ on June 12, 2012. FHFA-OIG took occupancy on December 10, 2013. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The lease terms of 20 Washington Place expire on September 14, 2022.

233 N Michigan Avenue – Two Illinois Center

FHFA-OIG entered into a lease for office space at 233 N Michigan Avenue (Two Illinois Center), Chicago, IL on July 11, 2014. FHFA-OIG took occupancy on July 21, 2014. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The lease terms of 233 N Michigan Avenue expire on November 30, 2020.

650 Capitol Mall

FHFA-OIG entered into a lease for office space at 650 Capitol Mall, Sacramento, CA on February 23, 2015. FHFA-OIG took occupancy on March 1, 2015. FHFA-OIG has the right to terminate the lease based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The lease terms of 650 Capitol Mall expire on February 15, 2025.

The leases at 300 N Los Angeles Street, 501 E Polk Street, 20 Washington Place, 233 N Michigan Avenue, and 650 Capitol Mall contain cancellation clauses; therefore these leases are not included in the minimum future payments table.

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

Fiscal Year	Amount	
2016	$	21,009
2017	$	22,292
2018	$	22,642
2019	$	23,105
2020	$	22,163
Thereafter	$	24,478
Total Future Payments	**$**	**135,689**

The minimum future receipts for the IAA with CFPB for the 1625 Eye Street NW space are as follows (dollars in thousands):

Fiscal Year	Amount	
2016	$	4,277
2017	$	5,223
2018	$	5,354
2019	$	5,488
2020	$	4,192
Thereafter	$	-
Total Future Operating Lease Receivables	**$**	**24,534**

Additionally, FHFA leased contingency space at an undisclosed location. The lease expired on March 31, 2015 and was not renewed.

NOTE 10. COMMITMENTS AND CONTINGENCIES

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2015. FHFA recorded a contingent liability in the amount of $973 thousand related to the estimated loss with the Consumer Finance Protection Bureau IAA as of September 30, 2014. The terms of the IAA changed in fiscal year 2015, therefore, the contingent liability no longer exists as of September 30, 2015.

NOTE 11. PROGRAM COSTS

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

FHFA moved from four strategic goals presented in fiscal year 2014 (1 – Safety and Soundness; 2 – Stability, Liquidity, and Access; 3 – Conservatorship; and 4 – Prepare for the Future) to three strategic goals presented this year as the result of FHFA's new Strategic Plan: fiscal years 2015 – 2019. The new and old strategic goals are not precisely equivalent. Therefore, the fiscal year 2015 and fiscal year 2014 Consolidated Statements of Net Cost are presented separately.

Additionally, with the adoption of changes to strategic goals, for fiscal year 2015 FHFA changed the presentation of earned revenue to offset total gross program costs rather than allocating to each strategic goal. This change was made to better reflect the nature of the assessments which, as descirbed in Note 1D, are based on an allocation of total expected costs.

FHFA's revenue was provided by the Regulated Entities through assessments. FHFA-OIG received their funding through a $46.7 million transfer from FHFA in fiscal year 2015 and a $41.6 million transfer in fiscal year 2014. FHFA-OIG's gross expenses for fiscal years 2015 and 2014 were $47.6 million and $49 million, respectively.

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

		2015
Safety and Soundness		
Intragovernmental Costs	$	30,280
Public Costs		113,598
Gross Costs		143,878
Net Safety and Soundness Program Costs		**143,878**
Liquidity, Stability, and Access		
Intragovernmental Costs		10,361
Public Costs		33,992
Gross Costs		44,353
Net Liquidity, Stability, and Access Program Costs		**44,353**
Conservatorship		
Intragovernmental Costs		2,428
Public Costs		60,390
Gross Costs		62,818
Net Conservatorship Program Costs		**62,818**
Total Intragovernmental Costs		43,069
Total Public Costs		207,980
Total Costs		251,049
Less: Total Intragovernmental Earned Revenue		3,724
Less: Total Public Earned Revenue		242,542
Total Net (Income)/Cost	**$**	**4,783**

		2014
Safety and Soundness		
Intragovernmental Costs	$	31,153
Public Costs		113,915
Total Program Costs		145,068
Less: Intragovernmental Earned Revenue		2,113
Less: Public Earned Revenue		112,883
Net Safety and Soundness Program (Income)/Costs		**30,072**
Stability, Liquidity, and Access		
Intragovernmental Costs		11,579
Public Costs		43,207
Total Program Costs		54,786
Less: Intragovernmental Earned Revenue		948
Less: Public Earned Revenue		50,647
Net Stability, Liquidity, and Access Program (Income)/Costs		**3,191**
Conservatorship		
Intragovernmental Costs		267
Public Costs		50,968
Total Program Costs		51,235
Less: Intragovernmental Earned Revenue		850
Less: Public Earned Revenue		45,410
Net Conservatorship Program (Income)/Costs		**4,975**
Prepare for the Future		
Intragovernmental Costs		4,988
Public Costs		15,379
Total Program Costs		20,367
Less: Intragovernmental Earned Revenue		485
Less: Public Earned Revenue		25,922
Net Prepare for the Future Program (Income)/Costs		**(6,040)**
Total Intragovernmental Costs		47,987
Total Public Costs		223,469
Total Costs		271,456
Less: Total Intragovernmental Earned Revenue		4,395
Less: Total Public Earned Revenue		234,863
Total Net (Income)/Cost	**$**	**32,198**

FINANCIAL SECTION

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

All obligations incurred are characterized as exempt from apportionment (i.e. not apportioned), on the Statement of Budgetary Resources. Obligations incurred and reported in the Statement of Budgetary Resources in fiscal years 2015 and 2014 consisted of the following (dollars in thousands):

	2015	2014
Direct Obligations Exempt from Apportionment	$ 297,413	$ 295,334
Reimbursable Obligations Exempt from Apportionment	3,754	4,650
Total Obligations Incurred	**$ 301,167**	**$ 299,984**

NOTE 13. LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

HERA requires that any balance that remains unobligated at the end of the fiscal year, except for amounts assessed for contribution to FHFA's working capital fund, must be credited against the next year's assessment to the Regulated Entities. The Director also has the authority to retain prior year unobligated funds for conservatorship-related activities that were not anticipated during the budget process. As of September 30, 2015 and 2014, the unobligated balance was $29.7 million and $30.9 million, respectively. The portion of the fiscal year 2015 unobligated available balance that will be credited against the Regulated Entities' April 2016 assessments is $2.4 million with the remaining $10 million retained in the working capital fund and $17.3 million retained for conservatorship activities. The portion of the fiscal year 2014 unobligated balance that was credited against the Regulated Entities' April 2015 assessment was $6.4 million with the remaining $10 million retained in the working capital fund and $14.5 million retained for conservatorship related activities. (See Note 2. Fund Balance With Treasury)

NOTE 14. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget that will include fiscal year 2015 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2016 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The 2016 Budget of the United States Government, with the "Actual" column completed for 2014, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 15. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the fiscal years ended September 30, 2015 and 2014, budgetary resources obligated for undelivered orders amounted to $34 million and $29 million, respectively.

NOTE 16. INCIDENTAL CUSTODIAL COLLECTIONS

FHFA's custodial collections primarily consist of employee administrative billing and collections and civil penalties assessed against the Regulated Entities. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the agency nor material to the overall financial statements. FHFA's custodial collections are $81 for the year ended September 30, 2015. Custodial collections totaled $36 for the year ended September 30, 2014. There were no civil penalties assessed or collected in fiscal year 2015 or 2014. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

NOTE 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

FHFA has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations (dollars in thousands).

	2015	2014
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 301,167	$ 299,984
Spending Authority from Offsetting Collections and Recoveries	(58,545)	(56,545)
Obligations Net of Offsetting Collections and Recoveries	242,622	243,439
Offsetting Receipts	(241,386)	(234,907)
Net Obligations	1,236	8,532
Other Resources		
Imputed Financing from Costs Absorbed by Others	5,376	7,604
Other Resources	(13)	
Net Other Resources Used to Finance Activities	5,363	7,604
Total Resources Used to Finance Activities	**6,599**	**16,136**
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	(4,975)	5,601
Resources That Fund Expenses Recognized in Prior Periods	(1,042)	(253)
Resources That Finance the Acquisition of Assets	(1,486)	(2,982)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(7,503)	2,366
Total Resources Used to Finance the Net Cost of Operations	**(904)**	**18,502**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	72	303
Other	1,173	1,983
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	1,245	2,286
Components Not Requiring or Generating Resources		
Depreciation and Amortization	4,379	9,119
Revaluation of Assets or Liabilities	5	2,295
Other	58	(4)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	4,442	11,410
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	5,687	13,696
Net (Income from)/Cost of Operations	**$ $4,783**	**$ 32,198**

FINANCIAL SECTION

OTHER INFORMATION

- FY 2014 Discontinued Performance Measures
- OIG Management and Performance Challenges
- Summary of Financial Statement Audit and Management Assurances
- Erroneous Payments

FY 2014 DISCONTINUED PERFORMANCE MEASURES

STRATEGIC GOAL 1 Safe and Sound Housing Government Sponsored Enterprises

Measures		FY 2014 Year-End Target	FY 2014 Results	Why discontinued
Performance Goal 1.1 - Identify risks and require timely remediation of weaknesses				
1.1.3	Issue standards and criteria to the regulated entities for risk management in the areas of operational and liquidity risk	3/31/2014	**MET**	This measure was discontinued because the goal was met.
Performance Goal 1.2: Improve the condition of the regulated entities				
1.2.1	FHFA performs risk-based examination work at the Enterprises, FHLBanks and the Office of Finance and identifies areas of weakness and supervisory concern	Enterprises: Onsite work completed by 3/31/2014 FHLBanks: 100 percent of the time	**MET**	This measure was replaced with 2015 Measure 1.1.2. - Provide Reports of Examination to regulated entities within 90 days of completing examination work.
1.2.3	Finalize Examination Manual for examination of all regulated entities, covering major areas of risk management (credit, market, operational, and model risk)	12/31/2013	**MET**	This measure was discontinued because the goal was met.

STRATEGIC GOAL 2 Stability, Liquidity, and Access in Housing Finance

Measures		FY 2014 Year-End Target	FY 2014 Results	Why discontinued
Performance Goal 2.1 - Promote stability and mitigate systemic risk that could lead to market instability				
2.1.1	Maintain the rate of HARP refinances	On a quarterly basis, 10 percent of HARP eligible borrowers with a refinance incentive will refinance	**PARTIALLY MET**	FHFA included expectations that the Enterprises pursue innovative approaches to each of these categories in the 2015 Conservatorship Scorecard. As the foreclosure crisis continues to evolve, new strategies and approaches are needed to assist borrowers wherever possible. FHFA works closely with the Enterprises throughout the year to assess their progress and outcomes in these areas.
2.1.2	Reduce the volume of Seriously Delinquent Loans which includes all loans in the process of foreclosure plus loans that are three or more payments delinquent	15 percent decline over the fiscal year relative to the Sept. 2013 volume	**MET**	
2.1.3	Distressed borrowers receive sustainable loan modifications	70 percent of permanent modifications are current and performing six months after modification	**MET**	
2.1.4	Reduce the volume of Real Estate Owned properties	14 percent decline over the fiscal year relative to the Sept. 2013 volume	**MET**	

STRATEGIC GOAL 2 Stability, Liquidity, and Access in Housing Finance (continued)

	Measures	FY 2014 Year-End Target	FY 2014 Results	Why discontinued
Performance Goal 2.2: Ensure liquidity in mortgage market				
2.2.1	Increase the average single-family guarantee fees charged by the Enterprises	FY 9/30/14 Compared to FY 9/30/13	**NOT MET**	In April 2015, FHFA completed and communicated to the public the results of the request for input on Fannie Mae and Freddie Mac's guarantee fees. FHFA determined that current fees, on average, were at an appropriate level and that some modest adjustments to upfront guarantee fees were also appropriate.
2.2.2	Complete beta testing for launching the National Mortgage Database	3rd Quarter FY 2014	**NOT MET**	Beta testing completed in FY 2014.
Performance Goal 2.3: Expand access to housing finance for diverse financial institutions and qualified borrowers				
2.3.1	Increase access to the secondary market for rural and community based lenders	Increase from prior year	**BASELINE**	This measure was replaced with the 2015 measure 2.3.2. - Require the Enterprises to continue to encourage greater participation by small lenders, rural lenders, and state and local Housing Finance Agencies.

STRATEGIC GOAL 3 Preserve and Conserve Enterprise Assets

	Measures	FY 2014 Year-End Target	FY 2014 Results	Why discontinued
Performance Goal 3.1 - Minimize taxpayer losses during the Enterprises' conservatorships				
3.1.1	Maintain executive management and board oversight by ensuring replacement of Executive Vice Presidents and above and board members	No more than one vacancy unfilled after 120 days	**MET**	This measure was refined for 2015 as measure 3.1.1. - Maintain a qualified board of directors and Chief Executive Officers to oversee the implementation of Conservator objectives.
3.1.3	Draft of 2015 Conservatorship Scorecard provided to Enterprise management for planning and budgeting purposes	4Q FY 2014	**NOT MET**	This measure was discontinued to focus on when the final Scorecard is published.

STRATEGIC GOAL 4	Prepare for the future of housing finance in the U.S.			
Measures		FY 2014 Year-End Target	FY 2014 Results	Why discontinued
Performance Goal 4.1 - Build a new infrastructure for the secondary mortgage market				
4.1.1	Completion of the build and internal testing of the Common Securitization Platform	Q4 FY 2014	**PARTIALLY MET**	This measure was replaced with 2015 measure 3.3.1 – Oversee release by Common Securitization Solutions of a new version of the Common Securitization Platform software (with updated interfaces and capabilities) for the Enterprises to test.
4.1.2	Establishment of an Enterprise joint venture to develop and operate the Common Securitization Platform	1Q FY 2014 - CEO Hired	**NOT MET**	The measure was discontinued because the goal was met in FY 2015.
Performance Goal 4.2 - Establish standards that promote a safer and more efficient housing finance system				
4.2.1	Develop plans to standardize origination and servicing data, leveraging the Mortgage Industry Standards Maintenance Organization process. Establish timelines to implement data collection	4Q FY 2014	**PARTIALLY MET**	During 2015 FHFA worked with the Enterprises to update and refocus this objective.
4.2.2	Enterprises publish new eligibility standards for mortgage insurers	1Q FY 2014	**NOT MET**	An updated version of this measure was included as 2015 measure 2.2.1 - Publish private mortgage insurer eligibility requirements, which was met in FY 2015.
4.2.3	Produce model contractual agreements for credit risk transfer transactions	1Q FY 2014	**MET**	This measure was replaced with 2015 measure 3.2.2. - Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions.
Performance Goal 4.3 - Contract enterprise operations				
4.3.2	Reduction in retained portfolio (exclusive of agency securities) through sales	5 percent annually	**MET**	This measure was replaced with 2015 measure 3.2.1 - Oversee reduction in retained portfolios consistent with the Preferred Stock Purchase Agreement.

OIG MANAGEMENT AND PERFORMANCE CHALLENGES

OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

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

October 5, 2015

TO: Melvin L. Watt. Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2016 Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000 (P.L. 106-531), the attached annual statement summarizes and assesses the most serious management and performance challenges facing the Federal Housing Finance Agency (FHFA or Agency).

FHFA serves two distinct roles for Fannie Mae and Freddie Mac (collectively, the Enterprises): currently, it acts as conservator for the Enterprises and as their regulator. It is also the regulator of the Federal Home Loan Banks (FHLBanks). In the attached statement, FHFA Office of Inspector General (OIG) identifies four key challenges the Agency faces in fulfilling these duties: conservatorship operations, supervision, non-bank sellers, and information technology security.

The attached summary and assessment statement is based on ongoing OIG work, OIG reports, other publicly available information, and OIG's general knowledge of FHFA's operations and the external environment.

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

The Federal Housing Finance Agency Office of Inspector General's Summary of the Agency's FY 2016 Management and Performance Challenges and Assessment

The Federal Housing Finance Agency (FHFA) was created in July 2008 by the Housing and Economic Recovery Act of 2008 (HERA) (P.L. 110-289) to serve as regulator of Fannie Mae and Freddie Mac (collectively, the Enterprises) and the Federal Home Loan Banks (FHLBanks), overseeing the safety and soundness and statutory missions of these government-sponsored enterprises (GSEs). In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into conservatorship. According to FHFA, it placed the Enterprises into conservatorship "in response to a substantial deterioration in the housing markets that severely damaged Fannie Mae and Freddie [Mac's] financial condition and left them unable to fulfill their mission without government intervention."[1] FHFA currently serves in a unique role: it is both conservator of and regulator for the Enterprises; and regulator for the FHLBanks.

Pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531), the FHFA Office of Inspector General (OIG) has identified four significant management and performance challenges facing FHFA, based on ongoing OIG work, OIG published reports, other publicly available information, and OIG's general knowledge of FHFA's operations and the external environment: conservatorship operations; supervision; non-bank sellers; and information technology security. In this statement, OIG explains each of the four significant management and performance challenges and discusses specific aspects of those challenges. Both FHFA and OIG have previously acknowledged the difficulties resulting from the ongoing uncertainty regarding the future role of the Enterprises in the housing finance system. In identifying and assessing these four serious management and performance challenges facing FHFA, OIG remains mindful of this uncertainty and recognizes that such ongoing uncertainty adds additional difficulties for FHFA as it seeks to address these challenges.

Challenge: Conservatorship Operations

HERA, which vested FHFA with the power to place the Enterprises into conservatorship, grants FHFA sweeping authority over the Enterprises while they remain in conservatorship. As conservator, FHFA possesses all rights and powers of any stockholder, officer, or director of the Enterprises; it may operate the Enterprises and conduct all of the Enterprises' business activities; it may take actions necessary to put the Enterprises in a sound and solvent condition; and it may take actions appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.

When then-Secretary of the Treasury Paulson announced the conservatorships in September 2008, he explained that the following period of time was meant to be a "'time out' where we have stabilized the" Enterprises, during which the "new Congress and the next Administration must decide what role government in general, and these entities in particular,

[1] FHFA, *FHFA as Conservator of Fannie Mae and Freddie Mac* (online at www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx).

should play in the housing market." The current FHFA Director has echoed that view in recognizing that conservatorship "cannot and should not be a permanent state" for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than ending them, and the "time out" period for the conservatorships has now entered its eighth year.

Since September 2008, FHFA has administered two conservatorships of unprecedented scope and undeterminable duration over two entities that dominate the secondary mortgage market and the mortgage securitization sector in the United States, and thus affect the entire mortgage finance industry. The lack of consensus in Congress about the nation's future mortgage finance system and the role, if any, for the Enterprises may mean that the Enterprises will continue to operate under FHFA's conservatorship for a considerably longer period. Since entering conservatorship, the Enterprises have required $187.5 billion in financial support from the U.S. Department of the Treasury (Treasury) to avert insolvency, and, through September 2015, the Enterprises have paid to Treasury approximately $239 billion in dividends. Although market conditions have improved and the Enterprises have returned to profitability, their ability to sustain profitability in the future cannot be assured for a number of reasons: the winding down of their investment portfolios and reduction in net interest income; the level of guarantee fees they will be able to charge; the future performance of their business segments; the elimination by 2018 of a capital cushion to buffer against losses; and the significant uncertainties involving key market drivers such as mortgage rates, homes prices, and credit standards. (For a detailed discussion of the uncertainty of the Enterprises' future profitability, see OIG, *The Continued Profitability of Fannie Mae and Freddie Mac Is Not Assured* (Mar. 18, 2015) (WPR-2015-001) (online at www.fhfaoig.gov/Content/Files/WPR-2015-001.pdf).)

As noted above, as conservator, FHFA is vested with express authority under HERA to operate the Enterprises and has expansive authority over trillions of dollars in assets and billions of dollars in revenue. FHFA also makes business and policy decisions that influence the entire mortgage finance industry. For reasons of efficiency, concordant goals with the Enterprises, and operational savings, FHFA has determined to delegate revocable authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management. The Enterprises recognize that FHFA, as conservator, has succeeded to—all rights, titles, powers, and privileges of the Enterprises and of any shareholder, officer, or director of the Enterprises, and that the directors of the Enterprises "no longer ha[ve] the power or duty to manage, direct or oversee [the] business and affairs" of the Enterprises.[2]

Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG has determined that FHFA's administration of the conservatorships continues to be a critical risk. OIG identified this risk

[2] See Fannie Mae, *Annual Report* (*Form 10-K*), at 25, 162 (Feb. 20, 2015) (online at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2014/10k_2014.pdf). See also Freddie Mac, *Annual Report* (*Form 10-K*), at 20 (Feb. 19, 2015) (online at www.freddiemac.com/investors/er/pdf/10k_021915.pdf).

in each prior management and performance challenges statement and reiterates here that FHFA is challenged to increase its oversight of the Enterprise conservatorships. In particular, FHFA should strengthen its oversight of delegated matters and continue to strengthen its internal process to decide non-delegated matters.

Oversight of Delegated Matters

As conservator of the Enterprises, FHFA owes duties to the U.S. taxpayers, the largest shareholders in the Enterprises, and has statutory responsibilities to ensure that the Enterprises achieve their statutory purpose. Pursuant to its powers under HERA to take actions "necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" and "appropriate to carry on the business of [Fannie Mae and Freddie Mac]" and "preserve and conserve" their assets, 12 U.S.C. § 4617(b)(2)(D), FHFA has delegated authority for many matters, both large and small, to the Enterprises and, since 2008, has issued more than 200 conservatorship directives in which it instructs the Enterprises to take certain actions, most of which relate to delegated responsibilities. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, when required, of the conservator.[3] As Fannie Mae states, "Our directors have no fiduciary duties to any person or entity except to the conservator." FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions). As conservator, FHFA is ultimately responsible for all decisions made and actions taken by the Enterprises, pursuant to FHFA's revocable grant of delegated authority.

Historically, FHFA's oversight of delegated matters, in its role as conservator, has largely been limited to attendance at Enterprise internal management and board meetings as observers and discussions with Enterprise managers and directors. For the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives. FHFA has not clearly defined the Agency's expectations of the Enterprises for delegated matters and has not established the accountability standard that it expects the Enterprises to meet for such matters.

FHFA should clearly define the Agency's expectations of the Enterprises for delegated matters; should define the standard it intends to apply when it assesses the actions of Enterprise directors, pursuant to the authority delegated to them by FHFA; and should strengthen its oversight of the Enterprises for matters delegated to them by the conservator. In a recent report, OIG assessed FHFA's conservatorship oversight of Fannie Mae's October 2013 appointment of its Chief Audit Executive—who heads Internal Audit, which is a critical element of Fannie Mae's risk management controls—and found that it was ineffective. Among other things, OIG found that FHFA had delegated to Fannie Mae's Board of Directors' Audit Committee the responsibility to hire a Chief Audit Executive and that Committee did not develop a plan to assess the appointee's conflicts or develop comprehensive controls to address them. As a consequence, Fannie Mae hired a candidate

[3] See, e.g., Fannie Mae, *Annual Report (Form 10-K)*, at 25, 162 (Feb. 20, 2015) and Freddie Mac, *Annual Report (Form 10-K)*, at 20 (Feb. 19, 2015).

who was burdened by conflicts without controls in place to mitigate them. Even after FHFA, acting in its capacity as regulator, directed the Audit Committee to assess the candidate's conflicts and put compensating controls in place, the Committee declined to complete the requested assessment and adopt controls in a timely manner. For more than a year after the conflicted Chief Audit Executive began work, Fannie Mae's Internal Audit was not in full conformance with governing standards, but FHFA failed to impose any consequences on either the individual Committee directors or on Fannie Mae. FHFA agreed with our remedial recommendations and, among other things, committed to instruct Fannie Mae to retain an independent third party to conduct a comprehensive evaluation of the Audit Committee's effectiveness, communicate to Fannie Mae its expectations for enhanced Audit Committee processes, and examine in 2016 the processes and criteria used by Fannie Mae to select and rotate members of board committees.

While FHFA employees attend Enterprise internal management and board meetings as observers, review materials provided by the Enterprises, and participate in discussions with Enterprise managers and directors, the Agency has lacked a structured process to share the information obtained by different FHFA employees with senior FHFA officials regarding matters delegated to the Enterprises. Lack of information sharing impedes the Agency's ability to oversee the Enterprises in carrying out their delegated responsibilities. For example, in our evaluation of Fannie Mae's hiring of a Chief Audit Executive, an FHFA employee told us that he raised concerns regarding the candidate's conflicts of interest to his superiors, but nothing in the record suggested that these concerns were raised with FHFA's then-Acting Director. Had those issues been socialized within senior FHFA management, FHFA senior officials would have been able to direct Fannie Mae to assess the candidate's conflicts and put controls in place to mitigate them before he was hired. FHFA committed to enhance its internal processes for information sharing.

Non-Delegated Matters

As noted, FHFA has retained authority to decide specific issues and can, at any time, revoke previously delegated authority. The Agency also should strengthen its processes for review and approval of non-delegated items. While FHFA has reported to OIG that it has made a number of enhancements to existing internal processes to improve the information flow to the FHFA Director, it has acknowledged, in response to a recent report from OIG, that additional improvements are warranted and have been put into place. (OIG, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose* (Sept. 30, 2015) (EVL-2015-006) (online at www.fhfaoig.gov/Content/Files/EVL-2015-006.pdf).)

In that evaluation, we assessed the effectiveness of FHFA's existing budget review and approval process for the Enterprises' annual operating budgets, which had increased approximately 31% between 2012 and 2015. We found budget submissions by the Enterprises after the fiscal year had begun, combined with cursory level analysis by FHFA's Division of Conservatorship and inadequate resources within that Division to assess the reasonableness of the proposed budgets, prevented FHFA from exercising effective control over Enterprise spending, both in amount and direction, and FHFA's approval of the budgets created the risk that it endorsed Enterprise spending that was not well understood by FHFA. OIG recommended, and FHFA agreed, to require the Enterprises to submit Board-approved proposed annual operating budgets before the end of a fiscal year so that the Agency has sufficient time to analyze them; to staff the internal FHFA review process with employees who have the skills and experience necessary to critically assess whether the proposed budgets align with the Agency's strategic direction and safety and soundness priorities; and to set a date certain early in the fiscal year by which the Agency will act on the proposed budgets.

Selected FHFA Actions Taken

We now summarize a number of recent actions taken by FHFA relating to its conservatorship responsibilities, in addition to the actions discussed above that it has committed to take relating to our remedial recommendations. OIG has not assessed the impact of these actions on FHFA's responsibilities as conservator. In January 2015, FHFA issued its 2015 conservatorship scorecard outlining the measures the Agency will use to assess the Enterprises' performance for the year. During the first six months of 2015, FHFA issued 17 conservatorship directives to the Enterprises providing instruction on a broad range of delegated responsibilities. FHFA continues to work on development of a single mortgage-backed security to be issued by Fannie Mae or Freddie Mac and development of a common securitization platform.

Challenge: Supervision

As noted earlier, FHFA plays a unique role, as both conservator and as regulator for the Enterprises, and as regulator for the FHLBanks. As FHFA recognizes, effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks. Section 20 of the Federal Home Loan Bank Act (12 U.S.C. 1440) requires each FHLBank to be examined at least annually. The exam function for the FHLBanks descends from the old Federal Home Loan Bank Board, through the Federal Housing Finance Board, to FHFA. As a result, there is a long history of examination practice and examination standards for DBR to draw upon.

FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. FHFA's annual examination program assesses Fannie Mae's and Freddie Mac's financial safety and soundness and overall risk management practices through ongoing monitoring, targeted examinations, and risk assessments. Prior to the creation of FHFA, the Enterprises were regulated by the Office of Federal Housing Enterprise Oversight (OFHEO), and OFHEO's first examination took place in 1994. In its Fiscal Year 2014 Performance and Accountability Report to Congress, FHFA stated, "To ensure that the regulated entities are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition." OIG agrees that effective supervision of the FHLBanks and the Enterprises is critical to ensuring their safety and soundness. OIG has determined that FHFA's administration of its supervision responsibilities continues to be a critical risk. OIG identified this risk in prior management and performance challenges statements and reiterates here that FHFA is challenged to increase the robustness of its supervision over the entities it regulates.

Quantity and Quality of Examiners

OIG has previously reported that both DBR and DER lacked a sufficient number of examiners and that the Agency lacked an adequate number of commissioned examiners, both of which placed the efficiency and effectiveness of FHFA's examination program at risk.[4] In response to our reports, FHFA committed to add examiners and has added examiners.

As regulator for the Enterprises and the FHLBanks, FHFA has long recognized that its examiners require certain skills and technical knowledge necessary to evaluate the condition and practices specific to them. In its 2011 report, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (Sept. 23, 2011) (EVL-2011-005), OIG found, among other things, that two-thirds of FHFA examiners were not commissioned: they had not completed a structured program of classroom and on-the-job training designed to provide technical competencies and practical examination experience. The Agency acknowledged that commissioned examiners were critical to strengthening the efficiency and effectiveness of its supervision of the regulated entities and that it lacked a sufficient number of commissioned examiners, and it agreed to monitor the development and implementation of an examiner commission program. In 2013, the Agency inaugurated its Housing Finance Examiner commission program that was designed to produce, in the next four years, a corps of commissioned examiners for its supervision of the Enterprises and of the FHLBanks. Our compliance review this year found that the commissioning program was not on track to graduate commissioned examiners with the knowledge, skills, and technical expertise necessary to conduct successful, risk-based examinations in the projected timeframe. OIG recommended, and FHFA agreed, to take steps to address shortfalls in the program.

Accurate, Complete, and High-Quality Examinations

In 2011, FHFA's Office of Quality Assurance (OQA), which is tasked with conducting internal reviews of DER and DBR examinations to enhance the effectiveness of FHFA's supervision, recommended that DER develop and implement a comprehensive quality control process. DER agreed to that recommendation in September 2012. In March 2013, FHFA issued a supervision directive in which it required formal internal quality control reviews to be conducted for all examinations conducted by DER and DBR.

DBR put into place formal internal quality control reviews. Notwithstanding DER's commitment in September 2012 to establish and implement formal quality control reviews for its examinations of the Enterprises and FHFA's March 2013 directive that such reviews be conducted for examinations, DER did not establish and implement a comprehensive internal quality control review process for its targeted examinations of the Enterprises. Only

[4] OIG, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs*, at 23, 31 (Sept. 23, 2011) (EVL-2011-005), online at www.fhfaoig.gov/Content/Files/EVL-2011-005.pdf; *Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises* (Dec. 19, 2013) (EVL-2014-002), online at www.fhfaoig.gov/Content/Files/EVL-2014-002.pdf.

after OIG commenced an evaluation of this issue and completed its fieldwork did DER advise OIG that on July 28, 2015, a comprehensive internal quality control process had been launched. Without a comprehensive internal quality control review of DER examinations, FHFA lacked assurance that DER's targeted examinations were accurate, complete, and of uniform high quality, which put at risk the quality of its examination program for the Enterprises.

Consistency of DER Examination Work

Observations made by OIG during its ongoing evaluation work of other DER programs has led us to question whether all DER examiners regularly follow the examination requirements set forth in FHFA's Examination Manual and DER's Operating Procedures Bulletins, which supplement the Examination Manual.

Records Management System

In 2014, OIG found that DER's recordkeeping practices impeded the efficient retrieval of workpapers by FHFA personnel and oversight organizations, including OIG. (OIG, *Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities* (Oct. 6, 2014) (EVL-2015-001) (online at www.fhfaoig.gov/Content/Files/EVL-2015-001.pdf).)

In that evaluation, OIG found that DER maintained no index or directory for the universe of workpapers, examination teams within DER used different document naming conventions, and electronic folders did not adhere to a cohesive, common structure. To strengthen records management, DER advised OIG that it would institute a practice in 2015 to align folder names with each team's examination plan. In addition, DER advised that it would use standardized workpaper folders in 2015 and would consider a permanent change. OIG's observations, from fieldwork conducted in 2015, are that little improvement has been made in DER's records management system.

Selected FHFA Actions Taken

We now summarize a number of recent actions taken by FHFA relating to its supervision responsibilities, in addition to the actions discussed above that it has committed to take relating to our remedial recommendations. OIG has not assessed the impact of these actions on FHFA's supervision responsibilities. For the first nine months of 2015, FHFA issued seven Advisory Bulletins addressing fraud risk management, information technology investment management, the rescission of guidance documents issued by OFHEO, Enterprise fraud reporting, FHLBank fraud reporting, FHLBank unsecured credit exposure reporting, and FHLBank core mission achievement. It approved the merger of the FHLBanks of Des Moines and Seattle in December 2014, which was finalized in May 2015. At the beginning of the fiscal year the Agency also reorganized personnel within its supervisory divisions, bringing the Agency's examination standards and examination execution groups together under one executive.

Challenge: Non-Bank Sellers

The Enterprises rely heavily on counterparties for a wide array of services, including mortgage origination and servicing. That reliance exposes the Enterprises to counterparty risk—that the counterparty will not meet its contractual obligations. Generally, FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its regulatory responsibilities.

There are numerous counterparty relationships with the Enterprises and each carries risk. One critical counterparty risk is the risk posed by loan originators that are not depository institutions (also called non-banks). In recent years, the share of Enterprise single-family loan purchases from depository institutions has fallen while the share of purchases from non-banks has risen. Based on OIG analysis of Enterprise data, from 2010 to 2014, Fannie Mae's share of purchases of single-family loans from non-depository institutions increased from 17% to 49% ($187 billion), while Freddie Mac's share increased from 10% to 38% ($97 billion).

Non-bank sellers are not regulated by federal financial regulatory agencies and may not have the same financial strength, liquidity, or operational capacity needed to meet their obligations to the Enterprises as depository institutions. As a result, there is a risk that a non-bank seller that failed to honor its contractual obligations, such as by selling loans to an Enterprise that did not comply with the Enterprise's lending requirements, would not have sufficient capital or liquidity to honor repurchase demands by the Enterprises for non-compliant loans. FHFA and other financial market participants must address the implications of a changing marketplace, including the attendant risks from non-banks.

Selected FHFA Actions Taken

We now summarize a number of recent actions taken by FHFA relating to its supervision of the Enterprises in connection with non-bank sellers. OIG has not assessed the impact of these actions on FHFA's responsibilities. In December 2014, FHFA issued an Advisory Bulletin in which it articulated its supervisory expectation that the Enterprises will effectively manage counterparty risks and directed the Enterprises to implement a board-approved risk management framework that includes risk-based oversight of single-family seller/servicers. In May 2015, FHFA announced that the Enterprises were issuing new capital and liquidity requirements for non-depository sellers and servicers of single-family mortgages, effective December 31, 2015.

Challenge: Information Technology Security

In 2012, then-FBI Director Robert Mueller warned that "there are only two types of companies: those that have been hacked and those that will be. And even they are converging into one category: companies that have been hacked and will be hacked again." Recent cyber security incidents affecting the federal workforce illustrate the scope of potential attacks. The Office of Personnel Management (OPM), which provides personnel services to federal government agencies, said in one incident 4.2 million current and former federal employees had personnel data stolen. In a separate incident, OPM said that 21.5 million people had their Social Security numbers and other sensitive information stolen from databases containing background investigation information.

Cyber attacks from outside an organization come in numerous forms and include attack vehicles such as malicious software aimed at gaining control of a system or efforts compromising the availability of a system or network by overloading the network. Broadly speaking, external cyber attackers can be grouped into three categories: "hacktivists," who use digital tools to promote a political or social agenda; nation states; and criminals who may directly attack an organization's system, or they may attack indirectly through a third party such as a vendor, contractor, or counterparty.

Information technology vulnerabilities also can come from inside an organization. Employees and contractors, current or former, with authorized access to an organization's network or data can exceed or misuse access and compromise the confidentiality, integrity, or availability of the organization's information or information systems. Even when an organization builds high barriers to protect its electronic assets from outsiders, it may have few protections against insiders. Insider threats can be particularly potent because insiders typically have greater access to sensitive information, a better understanding of internal processes, and an understanding of potential weaknesses in controls.

Larry Zelvin, the former Director of the National Cybersecurity and Communications Integration Center at the Department of Homeland Security, opined at a cyber security roundtable that, of the 16 critical infrastructure sectors in this country, "finance probably wins the cyber security threat award." He called the industry "a massive target" because it is "where the money is." The Enterprises own or guarantee $5 trillion in mortgage assets supporting the U.S. mortgage market. As part of their processes to guarantee or purchase loans, the Enterprises receive a substantial amount of information about mortgage borrowers, including financial data and personally identifiable information. Fannie Mae[5] and Freddie Mac[6] have been the subject of cyber attacks, although none caused significant harm. Similarly, the FHLBanks and their Office of Finance have not experienced material losses

[5] As disclosed by Fannie Mae in its 2014 Annual Report (*Form 10-K*): "From time to time we have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks and other information security breaches. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches, but we could suffer such losses in the future."

[6] As disclosed by Freddie Mac in its 2014 Annual Report (*Form 10-K*): "Like many corporations and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyber attacks. Although we devote significant resources to protecting our various systems and processes, there is no assurance that our security measures will provide fully effective security."

related to cyber attacks or other breaches.[7] All of the entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their information systems may be vulnerable to penetration. In this regard, the cyber threat to these entities is no different from the threat to other major financial institutions.

As conservator, FHFA has delegated to the Enterprises the responsibility to manage the security of their computer systems, software, and networks to best protect them from cyber attacks, breaches, unauthorized access, misuse, computer viruses or other malicious codes, or other attempts. The FHLBanks and their Office of Finance are responsible for such security management. In light of the significant financial, governance, and reputational risks that could flow from a cyber attack on either of the Enterprises, any of the FHLBanks, and/or their Office of Finance, FHFA must ensure adequate supervision of the information technology security controls put into place at each of the entities it regulates.

Selected FHFA Actions Taken

We now summarize recent actions taken by FHFA relating to its supervision of the Enterprises and the FHLBanks in connection with cyber security. OIG has not assessed the impact of these actions on FHFA's responsibilities. In 2014, FHFA issued an Advisory Bulletin to provide guidance to the entities it regulates for a risk-based approach to cyber security management. The Advisory Bulletin requires each entity to select a cyber security standard it will follow and then sets forth, in broad terms, characteristics of a cyber risk management program that FHFA believes should enable the entities to safeguard their cyber environments.[8] FHFA also incorporated assessment of the adequacy of cyber security controls into its 2015 examination program.

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To best leverage OIG's resources, we determined to focus our work on programs and operations that pose the greatest financial, governance, operational, and reputational risks to FHFA, the Enterprises, and the FHLBanks. Accordingly, our Audit and Evaluation Plan aligns to the challenges outlined above. OIG remains focused on assessing the adequacy of the controls put into place by FHFA and at the entities regulated by FHFA to mitigate those risks.

[7] As disclosed by the FHLBank Office of Finance in the 2014 Annual Report (*FHLBanks Combined Financial Report for the Year Ended December 31, 2014*) (online at www.fhlb-of.com/ofweb_userWeb/resources/2014Q4Document-web.pdf): "To date, the FHLBanks and the Office of Finance have not experienced any material effect or losses related to cyber attacks or other breaches. . . . Although each of the FHLBanks and the Office of Finance takes measures to protect the security of its information systems, these actions may not be able to prevent or mitigate the negative effects of certain failures or breaches. As such, a failure or breach of information systems could disrupt and adversely affect an FHLBank's or the Office of Finance's ability to conduct and manage its business effectively and could also result in significant losses, reputational damage, or other harm."

[8] The characteristics are: proportionality; cyber risk management; risk assessments; monitoring and response; system, patch, and vulnerability management; third-party management; and privacy and data protection.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1: SUMMARY OF FINANCIAL STATEMENTS AUDIT

AUDIT OPINION	*UNMODIFIED*				
Restatement	**No**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0

TABLE 2: SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unqualified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unqualified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0

CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (Federal Management Financial Integrity Act Paragraph 4)						
Statement of Assurance	**Unqualified**					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Non-Conformances	0	0	0	0	0	0

Erroneous Payments

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

FHFA, in the spirit of compliance and as part of a sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA has identified no activities susceptible to significant erroneous payments that meet the Act's thresholds. Additionally, FHFA pursues the recovery of all improper payments.

APPENDIX

- Glossary
- Index of Figures
- Acknowledgements
- FHFA Key Management Officials

GLOSSARY

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

Basis Points – Unit of measure used in finance to denote change in value. Basis points are commonly used to express change of less than 1 percent. For example, 50 basis points denotes a 0.5 percent shift.

Capitalization – The sum of a firm's or individual's long-term debt, stock and retained earnings.

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

Common Securitization Platform – New utility being developed under the direction of FHFA that will replace the Enterprises' current proprietary systems.

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

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

Consolidated Obligations – A term for the joint obligations of the 11 FHLBanks. Consolidated obligations are debt instruments that are sold to the public through the Office of Finance but are not guaranteed by the U.S. government.

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

Enterprise(s) – Fannie Mae and Freddie Mac.

Enterprise Risk – Includes enterprise credit risk, market risk, and operational risk.

Foreclosure – A legal process dictated by state law in which the mortgaged property is sold to pay off the mortgage of the defaulting borrower. A foreclosure has a greater negative impact than a short sale.

Governance – Includes policies and controls related to financial and regulatory reporting, leadership effectiveness of the board of directors and enterprise management, compliance, overall risk management, strategy, internal audit, and reputation risk.

Government Sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac, the 11 Federal Home Loan Banks, and the Office of Finance.

Home Affordable Modification Program (HAMP) – A program designed to help homeowners avoid foreclosure by modifying loans to a level that is affordable for borrowers right away and sustainable over the long term.

Home Affordable Refinance Program (HARP) – A home retention program that focuses on mortgages Fannie Mae and Freddie Mac already hold in their portfolios or guarantee through their mortgage-backed securities. It provides unique flexibilities on the level of credit enhancement required on loans with loan-to-value ratios greater than 80 percent. Borrowers who are current on their mortgages can refinance into a lower mortgage payment or more sustainable mortgage without requiring additional credit enhancement—generally private mortgage insurance.

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

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

Operational Risk – The risk of possible losses resulting from inadequate or failed internal processes, people, and systems or from external events.

Permanent Capital – The sum of common stock, preferred stock, and retained earnings.

Preferred Stock Purchase Agreement (PSPA) – PSPAs ensure that the Enterprises maintain a positive net worth so they can continue to be active suppliers of housing finance. The agreements are ongoing, explicit, and irreversible contractual commitments of the federal government ensuring that Fannie Mae and Freddie Mac can meet their obligations and maintain a positive net worth.

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

Reports of Examination (ROEs) – During each calendar year, FHFA completes ROEs for each of the 11 FHLBanks and the Office of Finance (OF), and the Enterprises, and presents them to their respective boards of directors. The scheduling of examination fieldwork and the review of ROEs may vary from one year to the next.

Secondary Mortgage Market – A market in which mortgages or mortgage-backed securities are acquired by the Enterprises and traded.

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

Short Sale – A sale of real estate in which the proceeds from selling the property will fall short of the balance of debt secured by liens against the property, and the property owner cannot afford to repay the liens' full amount and where the lien holders agree to release their lien on the real estate and accept less than the amount owed on the debt.

Structured Agency Credit Risk – A risk-sharing security developed by Freddie Mac.

Total Capital – The sum of permanent capital, the par value of Class A stock outstanding, a general allowance for losses, and the amount of any other instruments identified in an FHLBank's capital plan that FHFA has determined to be available to absorb losses.

Undercapitalized – A state of hindered operation for an FHLBank resulting from limited amounts of capital.

Underwriting Standards – The process a lender uses to determine whether the risk of lending to a particular borrower under certain parameters is acceptable. Most of the risks and terms underwriters consider fall under the three C's of underwriting: credit, capacity, and collateral.

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ACKNOWLEDGEMENTS

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