U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

November 15, 2023

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

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

Financial Audit: Federal Housing Finance Agency's FY 2023 and FY 2022 Financial Statements

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2023 and 2022 financial statements of the Federal Housing Finance Agency (FHFA), which is incorporated in the enclosed *Federal Housing Finance Agency Performance and Accountability Report for Fiscal Year 2023*.

As discussed more fully in the auditor's report that begins on page 73 of the enclosed agency performance and accountability report, we found

- FHFA's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;

- although controls could be improved, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023; and

- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

During our audit, we identified deficiencies in FHFA’s controls over its review of payroll accruals. These deficiencies collectively represent a significant deficiency in FHFA’s internal control over financial reporting that merits attention by those charged with governance of FHFA.[1]

The Housing and Economic Recovery Act of 2008 established FHFA as an independent agency empowered with supervisory and regulatory oversight of the housing-related government-sponsored enterprises: the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the 11 Federal Home Loan Banks, and the Office of Finance.[2] This act requires FHFA to prepare financial statements annually and requires GAO to audit the agency’s financial statements.[3] In accordance with the act, we have audited FHFA’s financial statements.

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

If you or your staffs have any questions concerning this report, please contact me at (202) 512-7795 or sitwilliamsa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Anne Sit-Williams
Director, Financial Management and Assurance

Enclosure

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

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

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

FHFA FY 2023
PERFORMANCE AND ACCOUNTABILITY REPORT


F.A.I.R.
FAIRNESS ◆ ACCOUNTABILITY ◆ INTEGRITY ◆ RESPECT
VALUES
FEDERAL HOUSING
FHFA
FINANCE AGENCY

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▶ MESSAGE FROM THE DIRECTOR

This Fiscal Year (FY) 2023 Performance and Accountability Report provides the financial statements and analysis for the Federal Housing Finance Agency (FHFA), and it assesses the performance of FHFA as regulator and conservator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – together, the Enterprises – and as regulator of the Federal Home Loan Bank (FHLBank) System. This report is intended to meet the requirements of the Government Performance and Results Modernization Act of 2010. The report's financial and performance data are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

The strategic goals against which this report evaluates the Agency's performance were established in April 2022 in FHFA's **FY 2022 – 2026 Strategic Plan**. These strategic goals reflect FHFA's focus to fulfill its mission and carry out its statutory responsibilities, as well as its commitment to a strong and equitable housing finance system:

1) Secure the safety and soundness of the regulated entities;
2) Foster housing finance markets that promote equitable access to affordable and sustainable housing; and
3) Responsibly steward FHFA's infrastructure.

FHFA continues to strengthen the safety and soundness of its regulated entities. In March 2023, FHFA published a notice of proposed rulemaking to further enhance the Enterprise Regulatory Capital Framework (ERCF) that would implement the lessons learned through the continued application of the ERCF, adopted in FY 2021, and better reflect the risks inherent in the Enterprises' business models. FHFA also issued guidance, such as Advisory Bulletin 2023-03 on model risk management, to address and set expectations for the regulated entities' business practices.

FHFA is also ensuring that its regulated entities identify and manage emerging climate-related risks. The Agency continues to work closely with the Enterprises to enhance the transparency, accountability, and alignment of their publicly reported Environmental, Social, and Governance metrics, and has begun monitoring their greenhouse gas emissions data and reporting readiness. In its supervisory role, FHFA has continued to review how the regulated entities consider the risks associated with climate change and natural disasters in their decision making and governance.

In order to meet its statutory obligation to foster liquid, efficient, competitive, and resilient national housing finance markets, FHFA continues to strengthen its core mission activities. Integral to this effort are updates to the Enterprises' credit score requirements. In October 2022, the Agency announced the validation and approval of the FICO 10T and VantageScore 4.0 credit score models for use by the Enterprises, as well as the requirement that loans delivered to the Enterprises include a minimum of two, rather than three, credit reports for each borrower from the national consumer reporting agencies. As the implementation of these updated requirements continues, FHFA and the Enterprises have undertaken extensive stakeholder engagement, and FHFA has announced a series of stakeholder forums to allow discussion of a wide variety of issues, opportunities, and challenges related to this implementation process.

Over the course of the fiscal year, FHFA announced multiple updates to the Enterprises' single-family pricing framework to enhance mission attainment while also bolstering safety and soundness. In October 2022, FHFA announced targeted increases to the upfront guarantee fees for most cash-out refinance loans. Simultaneously, FHFA announced the elimination of upfront guarantee fees for mortgage loans for many creditworthy low- and moderate-income first-time homebuyers, as well as certain borrowers purchasing homes in rural communities or purchasing manufactured housing. In January 2023, FHFA announced a recalibration of the upfront fees for most purchase and rate-term refinance loans to align the fee structure more closely with the risk factors utilized in the Enterprise Regulatory Capital Framework. Following extensive engagement with a variety of stakeholders, in May 2023, FHFA rescinded an upfront fee that was based on borrowers' debt-to-income ratios scheduled to take effect later in the year. In May 2023, FHFA also published a request for input (RFI) on the Enterprises' single-family pricing framework to gather further feedback regarding the goals and policy priorities FHFA should pursue in its oversight of this framework. Together, these steps will strengthen safety and soundness, better ensure the Enterprises fulfill their statutory missions, and more accurately align pricing with the expected financial performance and risks of the underlying loans.

FHFA has also committed to conducting a public process to identify concrete solutions to address the challenges faced by renters nationwide, focusing on properties with mortgage loans backed by the Enterprises. The Agency has led a stakeholder engagement process to explore the Enterprises' role in protecting the nation's tenants, and in May 2023, issued an RFI on multifamily tenant protections to solicit feedback from a diverse set of viewpoints. Representative of the Agency's commitment to supporting safe and sustainable housing opportunities for renters, FHFA also announced enhancements to the Enterprises, multifamily radon standards in January 2023. The enhanced radon standards were the result of extensive research and stakeholder outreach.

In 2022, the Enterprises released their inaugural Equitable Housing Finance Plans to identify and address barriers to sustainable housing opportunities, including goals and actions to advance equity in housing finance in 2022-2026. In April 2023, FHFA announced updates to build upon the inaugural plans and make adjustments based on initial research and findings. Also in April 2023, FHFA announced a notice of proposed rulemaking to formalize many of the Agency's existing practices and programs regarding fair housing and fair lending oversight of its regulated entities, including the requirement for the Enterprises to maintain Equitable Housing Finance Plans. FHFA expects this rulemaking to provide increased public transparency and greater oversight and accountability of the regulated entities' fair housing and fair lending compliance.

As part of FHFA's ongoing efforts to understand technology-driven developments in housing finance and the associated opportunities and risks, the Agency hosted its inaugural TechSprint, a team-based problem-solving event. The TechSprint brought together experts and practitioners from the technology and mortgage finance sectors to propose solutions that could reduce mortgage costs and delivery times while creating a more inclusive and transparent process. Over a three-day period in July 2023, the event consisted of intensive, in-person collaboration, along with several publicly available live-streamed panels and presentations. Teams worked to address problem statements centered around the question: *How might data digitization drive transparency and increase access, fairness, affordability, and sustainability in mortgage lending?*

In October 2022, using millions of Enterprise appraisal records, FHFA began publishing quarterly Uniform Appraisal Dataset (UAD) Aggregate Statistics Data Files and launched UAD Aggregate Statistics Dashboards on its website. Using this data in a manner that protects borrower privacy, the UAD aggregate statistics and dashboards give stakeholders and the public new access to a broad set of data points and trends found in appraisal reports. The new data and quarterly releases exemplify the Agency's dedication to transparency, providing access to information that can help deter appraisal bias, and, ultimately, lead to a more efficient and equitable valuation system.

As the FHLBank System nears its 100th year, FHFA launched a comprehensive review of the System to ensure it remains positioned to meet the needs of the future. FHFA solicited written input from the public and hosted public listening sessions and regional roundtable discussions across the country, covering a variety of topics. Topics included issues of local importance as well as more foundational questions about the FHLBanks' mission, purpose, and organization. FHFA drew on the feedback received through this public engagement along with its own extensive analysis when preparing a report, published in November 2023, which includes recommendations for how the FHLBank System could effectively fulfill its mission.

Success in meeting FHFA's mission and goals requires empowered and supported staff and prudent business practices that responsibly steward the Agency's infrastructure. FHFA's high-performance culture leads us to continuously review our work to identify opportunities for improvements. Our work reflects the Agency's values of fairness, accountability, integrity, and respect.

Transparency and dialogue with stakeholders and the public are vital to the policymaking process. The publication of this report is one way FHFA informs the public of our planned actions and decision-making to facilitate this dialogue.

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

Sincerely,

SANDRA L. THOMPSON
Director, Federal Housing Finance Agency
November 8, 2023

FHFA's MISSION, VISION, AND VALUES[1]

MISSION

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

VISION

For FHFA's supervisory, regulatory, and mission-related activities to support a reliable, stable, equitable, and liquid U.S. housing finance system.

VALUES

FHFA's culture is built on a foundation of competence, diversity, equity, and inclusion. Accordingly, FHFA employees emulate the following values:

FAIRNESS We value varied perspectives and thoughts and treat others with impartiality.

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

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

RESPECT We treat others with dignity, share information and resources, and collaborate.

[1] **https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2022-2026_Final.pdf**.

LIST OF ABBREVIATIONS

Abbreviation	Description
AB	Advisory Bulletin
AHP	Affordable Housing Program
AI	Artificial Intelligence
AMA	Acquired Member Assets
APP	Annual Performance Plan
ARCC	Audit, Risk, and Control Committee
Bank Act	Federal Home Loan Bank Act of 1932
Bureau of the Fiscal Service	Fiscal Service
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
CFPB	Consumer Financial Protection Bureau
CRT	Credit Risk Transfer
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
CY	Calendar Year
D&I	Diversity and Inclusion
DAFS	Division of Accounting and Financial Standards
DBR	Division of Federal Home Loan Bank Regulation
DCOR	Division of Conservatorship Oversight and Readiness
DEIA	Diversity, Equity, Inclusion, and Accessibility
DER	Division of Enterprise Regulation
DGC	Data Governance Committee
DHMG	Division of Housing Mission and Goals
DRS	Division of Research and Statistics
DTS	Duty to Serve
EEO	Equal Employment Opportunity
ERCF	Enterprise Regulatory Capital Framework
ESG	Environmental, Social, and Governance
FAIR	Fairness, Accountability, Integrity, and Respect
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FEVS	Office of Personnel Management's Federal Employee Viewpoint Survey
FHFA	Federal Housing Finance Agency
FHFA HPI®	FHFA House Price Index®
FHLBank	Federal Home Loan Bank
Fintech Office	Office of Financial Technology
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management System
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year

Abbreviation	Description
GAO	U.S. Government Accountability Office
GHG	Greenhouse Gas
HERA	Housing and Economic Recovery Act of 2008
ICAM	Identify, Credential, and Access Management
MBS	Mortgage-Backed Security
MI	Mortgage Insurer
MRA	Matter Requiring Attention
MSR	Mortgage Servicing Rights
MVE	Market Value of Equity
MWOB	Minority- and Women-Owned Businesses
NMDB®	National Mortgage Database®
NSMO	National Survey of Mortgage Originations
OCAC	Office of Congressional Affairs and Communications
OCOO	Office of the Chief Operating Officer
OD	Office of the Director
OEOF	Office of Equal Opportunity and Fairness
OF	Office of Finance (of the Federal Home Loan Bank System)
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
PAR	Performance and Accountability Report
PAVE	Property Appraisal and Valuation Equity Taskforce
PIIA	Payment Integrity Information Act of 2019
PO	Purchase-Only
PSPA	Preferred Stock Purchase Agreement
PUDB	Public Use Database
PVCS	Par Value of Capital Stock
RFI	Request For Input or Request For Information
ROE	Report of Examination
Safety and Soundness Act	Federal Housing Enterprises Financial Safety and Soundness Act of 1992
SEC	U.S. Securities and Exchange Commission
SF	Single-Family
SDQ	Seriously Delinquent
Treasury	U.S. Department of the Treasury
UAD	Uniform Appraisal Dataset
UMBS	Uniform Mortgage-Backed Security
U.S.C.	United States Code
U.S. GAAP	U.S. Generally Accepted Accounting Principles
USPAP	Uniform Standards of Professional Appraisal Practice
VBCI	Values-Based Culture Initiative

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), amending the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act). The Agency is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae and Freddie Mac (the Enterprises), Common Securitization Solutions, LLC (CSS), and the Federal Home Loan Bank (FHLBank) System, which includes the 11 FHLBanks and Office of Finance (OF), a joint office of the FHLBanks. FHFA's mission is to ensure that Fannie Mae, Freddie Mac, and the FHLBanks (together, the regulated entities[2]) operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment through the economic cycle. Since September 6, 2008, FHFA has also served as conservator of the Enterprises.

Regulator

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

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

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

(B) to ensure that—

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

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

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

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

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[2] The OF and CSS are not separate "regulated entities" as the term is defined by statute (see 12 U.S.C. § 4502(20)). Rather, OF is part of the FHLBank System, and CSS is an affiliate of the Enterprises. However, for convenience, references to the "regulated entities" in this report should be read to also apply to the OF and CSS, unless otherwise noted.

[3] 12 U.S.C. § 4513.

[4] 12 U.S.C. § 4513(a)(1).

Conservator

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

(D) … take such action as may be—

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

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

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

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

[5] 12 U.S.C. § 4617(b)(2)(D).

[6] 12 U.S.C. § 5220(b)(1).

BACKGROUND ON THE REGULATED ENTITIES

The Enterprises

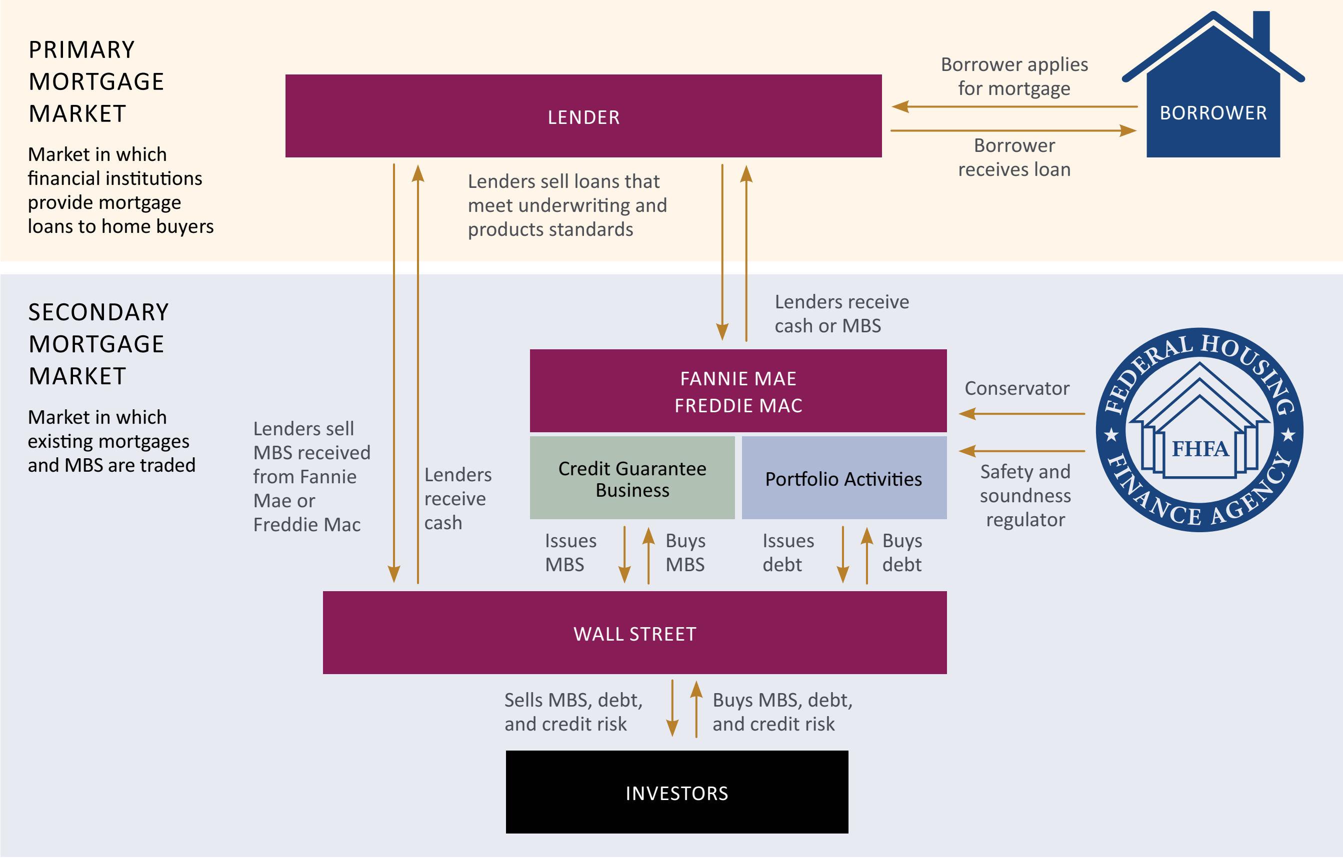
Fannie Mae and Freddie Mac were created by Congress in 1938 and 1970, respectively, to provide stability and liquidity in the secondary market for residential mortgages. The Enterprises acquire mortgages that lenders have already made to borrowers. The Enterprises guarantee the payment of principal and interest on the underlying mortgages and charge lenders a guarantee fee for assuming the credit risk associated with the acquired mortgages. Since September 6, 2008, the Enterprises have operated in conservatorships.

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

CSS, jointly and equally owned by the Enterprises, uses the Common Securitization Platform (CSP) to administer the Enterprises' portfolios of Mortgage-Backed Securities (MBS) and for the issuance of the Uniform Mortgage-Backed Security (UMBS). Operating the CSP involves storing, processing, and transmitting large volumes of data, as CSS acts as an agent for the Enterprises to facilitate issuance of SF MBS and related disclosures, as well as to administer the securities post-issuance. Specifically, CSS records securities with registrars (e.g., Federal Reserve Bank of New York), supports and facilitates security settlement activities, validates settlements, and provides confirmation back to the requestor.

As shown in Figure 1, most SF mortgages are pooled into MBS, which are guaranteed by the Enterprises and then sold to investors.

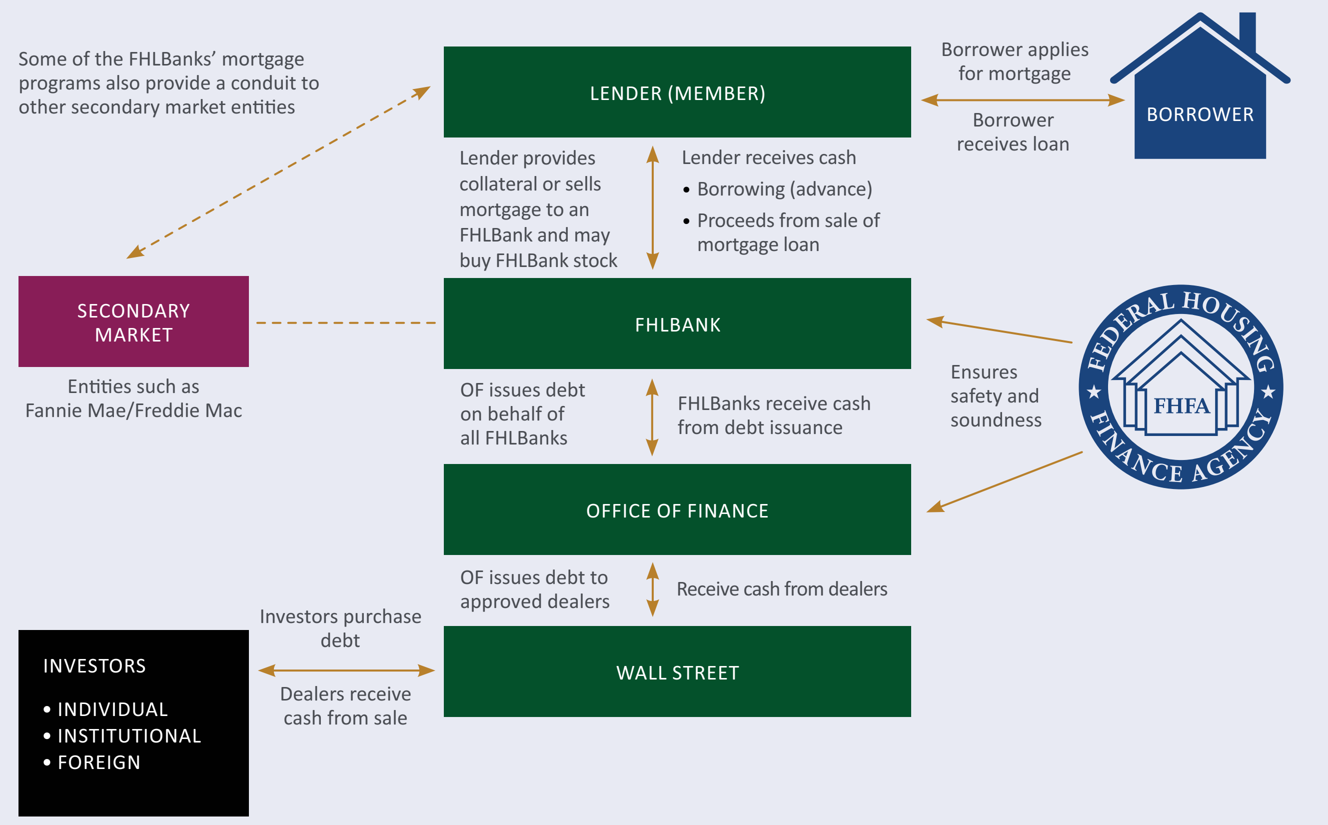
Figure 1: FHFA's Oversight Role – Fannie Mae and Freddie Mac



The Federal Home Loan Banks

Congress passed the Federal Home Loan Bank Act (Bank Act) in 1932 to establish the FHLBank System and reinvigorate a housing market devastated by the Great Depression. The FHLBank System includes 11 district FHLBanks, each serving a designated geographic area of the United States, and the OF, which issues consolidated obligations[7] to fund the FHLBanks' operations. The FHLBanks are member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making secured loans, known as advances, to member institutions and housing associates[8] (see Figure 2). These advances increase the available funding for residential mortgages. The FHLBank advances must be secured with eligible collateral, consisting primarily of single-family mortgages, multifamily mortgages, government and agency securities, and commercial real estate loans. Some FHLBanks also purchase mortgage loans directly from their members through on-balance sheet Acquired Member Assets (AMA) programs.

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



As of September 30, 2023, there were 6,490 active FHLBank members, consisting of commercial banks, credit unions, thrifts, insurance companies, and community development financial institutions.

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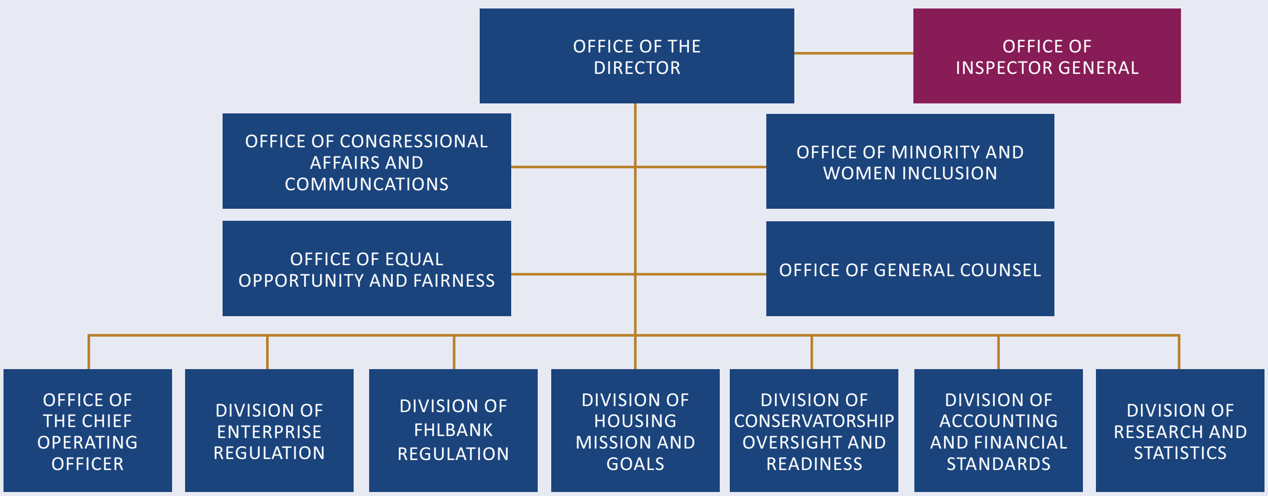
7 Consolidated obligations are debt obligations on which the 11 FHLBanks are jointly and severally liable, see 12 U.S.C. §1431, and which are sold to the public through OF. By statute, FHLBank consolidated obligations must plainly state that they are not obligations of the United States and are not guaranteed by the United States. See 12 U.S.C. § 1435.

8 Housing associates are not FHLBank members, but they have limited access to products and services offered by the FHLBanks. See 12 U.S.C. § 1430b; 12 CFR part 1264. Most housing associates are state or local housing finance agencies.

FHFA ORGANIZATION

FHFA's workforce includes highly skilled examiners, economists, financial analysts, policy analysts, attorneys, accountants, and subject matter experts in banking, housing, insurance, technology, and legal matters. The Director sets the course for the Agency to achieve its mission, and the Agency's divisions and offices work together to meet the Agency's strategic goals. FHFA's principal organizational units are shown in Figure 3.

Figure 3: FHFA Principal Organization Structure



The Agency operated with an approved operating budget of $309.3 million in Fiscal Year (FY) 2023 and ended the year with 728 employees on board. For FY 2024, the Agency's budget increased to $318.8 million and supports 805 positions. FHFA's Office of Inspector General (OIG) operated with a FY 2023 budget of $55 million and ended the year with 118 employees on board. The OIG's FY 2024 budget increased to $57 million, which will support 155 positions. See Table 1 for staff distribution by major FHFA divisions and offices.

Table 1: FHFA Staffing Summary

	FY 2023 (Actual[a])	% by Functional Area	FY 2024 (Budget)	% by Functional Area
Mission Division/Offices[b]	512	70%	563	70%
Mission Support Division/Offices[c]	216	30%	242	30%
Number of FHFA Employees	728	100%	805	100%
Number of OIG Employees	118	100%	155	100%

[a] *Actual Employees onboard as of September 30, 2023.*

[b] *Mission Divisions and Offices include: Division of Accounting and Financial Standards, Division of FHLBank Regulation, Division of Conservatorship Oversight & Readiness, Division of Enterprise Regulation, Division of Housing Mission and Goals, Division of Research and Statistics, and Office of Minority and Women Inclusion.*

[c] *Mission Support Divisions and Offices include: Director's Office, Office of the Chief Operating Officer, Office of Congressional Affairs and Communications, Office of Equal Opportunity and Fairness, and Office of General Counsel.*

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

The Office of the Chief Operating Officer (OCOO) ensures the Agency has the necessary assets (people, technology, information, and facilities) and governance (policy, procedures, and processes) to achieve its regulatory mission. It oversees the Agency's day-to-day operations, including facilities management, continuity of operations, financial planning and budgeting, contracting, human resource management, information technology, quality assurance, program management, and audit follow-up functions. The office also leads Agency strategic planning, performance management and reporting efforts, and enterprise risk management. As the asset manager of FHFA, the office ensures the Agency uses systematic, structured, and coordinated approaches to optimally manage its resources.

The Division of Enterprise Regulation (DER) supervises the Enterprises and CSS and evaluates the safety and soundness of their financial condition and operations. DER contributes to the achievement of FHFA's strategic goals and strategic objectives through planning and executing risk-based examinations of the Enterprises and CSS, developing and preparing the annual reports of examination (ROEs), issuing supervision policy and examiner guidance, and providing risk analysis. The annual ROEs assign composite and component ratings in accordance with FHFA's supervisory rating system and communicate the principal examination conclusions and findings for the supervisory cycle.

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

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

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

The Office of General Counsel (OGC) advises and supports the Director and FHFA staff on legal matters related to the functions, activities, and operations of FHFA and the regulated entities. It supports supervision functions, rule writing, housing mission policy initiatives, enforcement actions, agency internal operations, and agency-related litigation, among other items. The Senior Agency Official for Privacy manages the Freedom of Information Act and Privacy Act programs. The Designated Agency Ethics Official manages the Agency's ethics program; advises, counsels, and trains FHFA employees on ethical standards and conflicts of interest; and manages the Agency's financial disclosure program.

The Division of Accounting and Financial Standards (DAFS) promotes the safety and soundness of the regulated entities. The Office of the Chief Accountant performs oversight of the regulated entities' accounting policies, internal controls over financial reporting, financial and sustainability disclosures, internal and external audit functions, and financial crimes compliance and risk management. DAFS provides supervisory guidance in these areas; monitors and analyzes developments in accounting, auditing, financial crime and cybersecurity risk management; and engages with standard-setters and external stakeholders on emerging issues. DAFS supports the transparency and accountability of FHFA's supervision and regulation through the Office of the Ombudsman, which provides independent, neutral consideration of complaints and appeals on matters relating to FHFA's regulation and supervision of the regulated entities.

The Division of Research and Statistics (DRS) leads the Agency's efforts to produce and disseminate high quality data, research, statistics, and analysis to internal and external stakeholders. For example, the division is responsible for publishing FHFA's House Price Index, National Mortgage Database (NMDB®), the NMDB Aggregate Statistics, the National Survey of Mortgage Originations data, the Uniform Appraisal Dataset Aggregate Statistics, and the Enterprise Public Use Database. The division also leads the Agency's efforts to manage and leverage data as a strategic asset by improving the Agency's data governance, lifecycle data management, analytics capabilities, and public data dissemination. The division provides the leadership and coordination needed to achieve the Agency's Climate Change and Environmental, Social, and Governance objectives. DRS staff also work with other government researchers and data experts, engage in academic and industry conferences and meetings, and disseminate statistical products and research to the public.

The Office of Minority and Women Inclusion (OMWI) leads the Agency's efforts to advance diversity, equity, inclusion, and accessibility among its workforce and senior-level management. OMWI is responsible for developing standards for increased participation of minority- and women-owned businesses in Agency programs and contracts, including standards for coordinating technical assistance to such businesses and evaluating the good faith efforts of Agency contractors and subcontractors. OMWI also oversees and directs all diversity and inclusion (D&I) examination activities, develops examination findings, and prepares annual D&I ROEs for the Enterprises, the FHLBanks, OF, and CSS.

The Office of Equal Opportunity and Fairness (OEOF) houses FHFA's Equal Employment Opportunity (EEO), antiharassment, and alternative dispute resolution functions and has the responsibility for maintaining effective affirmative employment programs. The office partners with FHFA leadership and the workforce to ensure an equitable and civil workplace, grounded in the dignity and respect of all employees. The office interprets the Equal Employment Opportunity Commission's regulations, Management Directives, and guidance documents, while remaining proactively neutral and impartial in the administration of the federal EEO Complaint Process and the Harassment Prevention Program. The office educates the workforce on their rights and responsibilities under civil rights laws. OEOF ensures that FHFA is compliant with EEO laws and regulations. In addition, the office develops tools, methodologies, and learning and education options to inform the workforce about how to address workplace conflict through alternative dispute resolution.

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

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

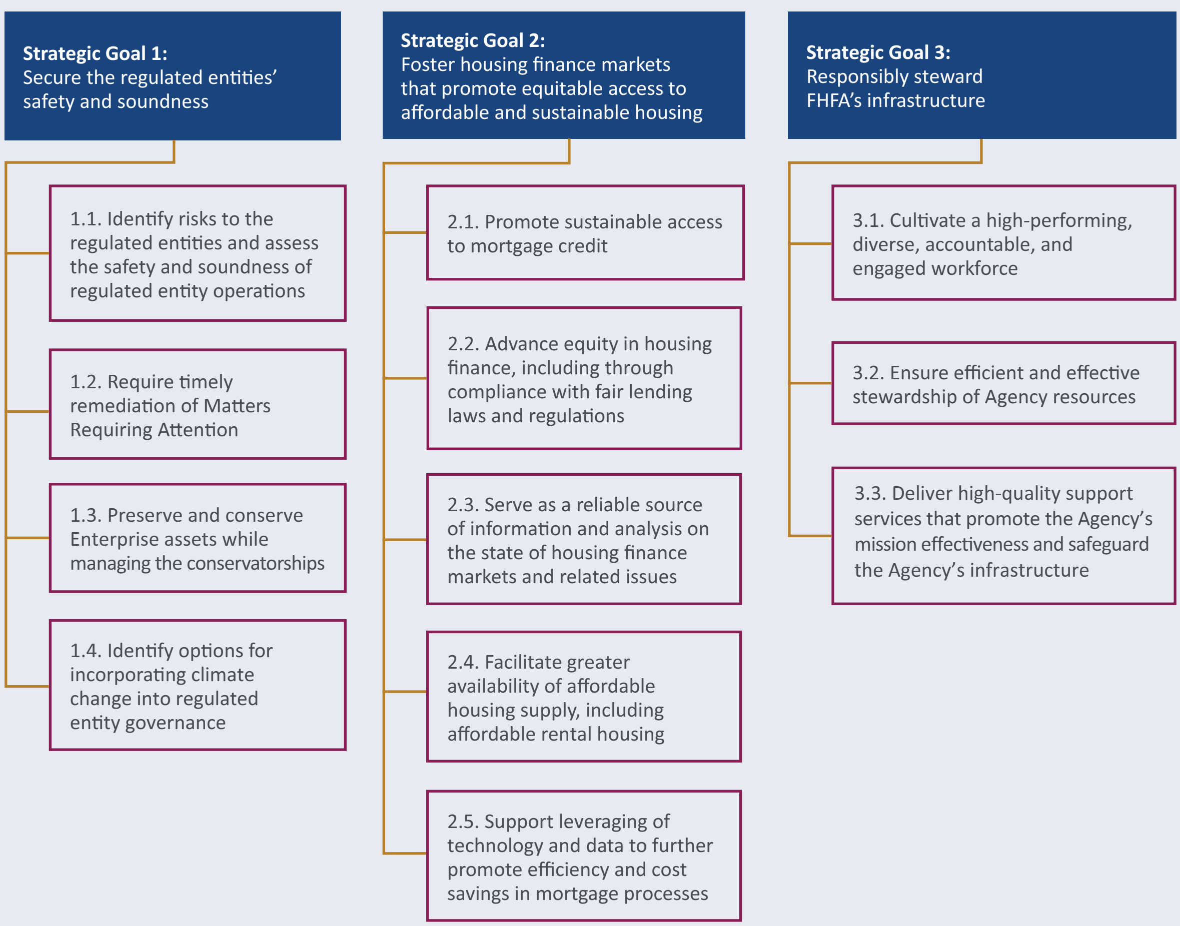
PERFORMANCE SUMMARY

STRATEGIC GOALS AND OBJECTIVES

FHFA's Strategic Plan provides the foundation for Agency planning, budgeting, operations, and reporting. It establishes long-term goals and objectives to achieve FHFA's mission.

The Strategic Plan also identifies planned means and strategies to achieve the strategic objectives. Key elements from FHFA's FY 2023 Annual Performance Plan, which reports progress on the Agency's Strategic Plan, are presented in Figure 4, including the three strategic goals and their corresponding strategic objectives that were in effect during FY 2023, the period covered by this report. The performance measures associated with the strategic objectives are presented in the Performance Section. Validation and verification activities, conducted to confirm that performance results are reported accurately, are described on page 32, and a template that FHFA uses to validate and verify its measures and data can be found in the Appendices on pages 129.

Figure 4: FHFA'S FY 2022-2026 Strategic Plan: Goals and Objectives



SUMMARY OF PERFORMANCE MEASURES AND RESULTS

For FY 2023, FHFA identified a total of 35 performance measures and associated targets to monitor progress toward achieving the Agency's strategic goals and strategic objectives. FHFA met the targets for 31 of these measures at an 89 percent success rate. The overall results indicate progress toward achieving FHFA's goals and mission.

Table 2 presents a summary of FY 2023 performance measures and results. More information on FHFA's performance organized by strategic goal can be found in the Performance Section, starting on page 33.

Table 2: Summary of Performance Measures and Results

Performance Measure	FY 2023 Target	FY 2023 Result
STRATEGIC GOAL 1: SECURE THE REGULATED ENTITIES' SAFETY AND SOUNDNESS		
Strategic Objective 1.1: Identify risks to the regulated entities and assess the safety and soundness of regulated entity operations		
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises and Common Securitization Solutions by having written risk-based examination plans approved by January 31	100 percent of the time	MET
1.1.1b: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks	100 percent of the time	MET
1.1.2a: Approve reports of examination by April 15[9] for the Enterprises and Common Securitization Solutions	100 percent of the time	MET
1.1.2b: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks	100 percent of the time	NOT MET
1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	100 percent of the time	MET
1.1.5: Conduct quarterly reviews of regulated entity public filings	100 percent of the time	MET
1.1.6a: Approve Diversity and Inclusion reports of examination by April 15 for the Enterprises and Common Securitization Solutions	100 percent of the time	MET
1.1.6b: Approve Diversity and Inclusion reports of examination for at least four of the FHLBank System regulated entities	100 percent of the time	MET
Strategic Objective 1.2: Require timely remediation of Matters Requiring Attention		
1.2.1a: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	90 percent of the time	MET
1.2.1b: Determine that the FHLBanks and Office of Finance have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	90 percent of the time	MET
1.2.2: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed upon timeframes	90 percent of the time	MET

9 Or the first business day after if the date falls on a weekend.

Table 2: Summary of Performance Measures and Results		
Strategic Objective 1.3: Preserve and conserve Enterprise assets while managing the conservatorships		
1.3.1: Provide decision to Enterprises regarding completeness of resolution plan submissions in conjunction with readiness activities	July 31, 2023	NOT MET
1.3.2: Monitor and rate the Enterprises' performance against current Scorecard objectives	Complete quarterly assessment within 30 days of quarter end (within 60 days for year-end assessment)	MET
Strategic Objective 1.4: Identify options for incorporating climate change into regulated entity governance		
1.4.1: Continue to develop the Enterprises' and FHFA's climate research agendas	Q4 FY 2023	MET
STRATEGIC GOAL 2: FOSTER HOUSING FINANCE MARKETS THAT PROMOTE EQUITABLE ACCESS TO AFFORDABLE AND SUSTAINABLE HOUSING		
Strategic Objective 2.1: Promote sustainable access to mortgage credit		
2.1.1: Issue annual ratings for each Enterprise's Duty to Serve performance in 2021	Q1 FY 2023	MET
2.1.2: Publish final Enterprise multifamily housing goals rule for 2023-24	Q1 FY 2023	MET
Strategic Objective 2.2: Advance equity in housing finance, including through compliance with fair lending laws and regulations		
2.2.1: Issue an FHFA Fair Lending Rating System	Q4 FY 2023	MET
2.2.2: Ensure Enterprises' updated Equitable Housing Finance Plans are published	Q3 FY 2023	MET
Strategic Objective 2.3: Serve as a reliable source of information and analysis on the state of housing finance markets and related issues		
2.3.1: Publish FHFA House Price Indexes	12 monthly and 4 quarterly	MET
2.3.2: Publish annual Public Use Database	September 2023	MET
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database	One per quarter	MET
2.3.4: Publish annual Guarantee Fee Report	December 2022	MET
Strategic Objective 2.4: Facilitate greater availability of affordable housing supply, including affordable rental housing		
2.4.1 Determine that the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard[10]	By the end of the calendar year 2022, (1) Each Enterprise's mission-driven business meets or exceeds 50 percent of total multifamily business, and (2) At least 25 percent of each Enterprise's total business is affordable at or below 60 percent of area median income	MET

[10] The 2022 Conservatorship Scorecard expands the definition of naturally occurring affordable housing to include affordability adjustments in certain markets FHFA designates as cost-burdened to renters and classifies as mission-driven, financing that facilitates energy and water conservation measures for low-income tenants. Other mission-driven business includes loans on manufactured housing; community blanket loans; loans that finance properties in rural markets; loans that finance small multifamily (5-50 unit) properties; loans that finance seniors housing assisted living properties; and loans on properties encumbered by a regulatory agreement or recorded use restriction that restricts the unit rents and the incomes of the tenants occupying the units. The 2022 Conservatorship Scorecard can be found here: **https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/2022-Appendix-A-10132021.pdf**.

Table 2: Summary of Performance Measures and Results		
2.4.2: Determine that Real Estate Owned properties held by the Enterprises are marketed providing an exclusive opportunity for owner-occupants and community-oriented organizations to purchase the property prior to investors	More that 90 percent of vacant properties marketed	MET
Strategic Objective 2.5: Support leveraging of technology and data to further promote efficiency and cost savings in mortgage processes		
2.5.1: Complete analysis of input received from the Request for Input on Fintech in Housing Finance issued in FY 2022, capturing an overview of responses received	March 31, 2023	MET
STRATEGIC GOAL 3: RESPONSIBLY STEWARD FHFA'S INFRASTRUCTURE		
Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce		
3.1.1: Federal Employee Viewpoint Survey Performance Confidence Index	70 percent positive	MET
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index	70 percent positive	MET
3.1.3: Improve Time-to-Hire	80 calendar days	NOT MET
3.1.4: Develop FHFA Culture Plan	Q1 FY 2023	MET
Strategic Objective 3.2: Ensure efficient and effective stewardship of Agency resources		
3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses	100 percent of the time	MET
3.2.2: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	Total dollar amount of contracts greater than the five-year average	MET
3.2.3: Management completes corrective actions to address FHFA Office of Inspector General recommendations in a timely manner	90 percent of the corrective actions to address Office of Inspector General recommendations are completed within one year of the resolution date or the approved timeframe	MET
Strategic Objective 3.3: Deliver high-quality support services that promote the Agency's mission effectiveness and safeguard the Agency's infrastructure		
3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	100 percent of the time	MET
3.3.2: Develop FHFA Information Technology Strategic Plan	Q4 FY 2023	NOT MET

LOOKING FORWARD

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

Formalize Fair Lending and Fair Housing Oversight Activities

FHFA continues to strengthen its fair lending and fair housing oversight programs. In FY 2024, the Agency plans to implement a first-of-its-kind Enterprise Fair Lending Rating System to annually assess each Enterprise's compliance with fair lending and fair housing standards, as well as equity and public interest goals, including Equitable Housing Finance Plan performance. FHFA will use this risk-focused rating system to assign a rating based on an evaluation of each Enterprise's fair lending compliance management system and program effectiveness. FHFA will issue formal ratings in 2024 based on the Agency's fair lending, fair housing, and equity engagements with the Enterprises during calendar year 2023, and these ratings will be considered in the Reports of Examination going forward.

Facilitate Greater Affordable Housing Supply

The 2023 Conservatorship Scorecard requires the Enterprises to identify strategies and activities to facilitate a greater multifamily affordable housing supply within the limits of their charter authorities. The Conservatorship Scorecard includes several actions to ensure that all borrowers and renters have equitable access to long-term affordable housing opportunities. Those strategies identified in 2023 will continue to be implemented by the Enterprises in FY 2024. Some of the strategies and activities in which the Enterprises are already engaged include equity investments in Low-Income Housing Tax Credits and multifamily forward commitment programs, as well as programs with or without public subsidies that preserve affordable housing.

Financial Technology (FinTech)

In FY 2024, FHFA will publish a summary of the inaugural Velocity TechSprint, highlighting how data digitization might drive transparency and increase access, fairness, affordability, and sustainability in mortgage lending. In addition, the summary will capture key themes from speakers and panel discussions that FHFA hosted during the Velocity TechSprint. FHFA will continue to conduct industry outreach and will work with the Enterprises to identify and address specific impediments to reducing cost and complexity in the mortgage process. The Agency expects to host at least one TechSprint in FY 2024 to bring together mortgage industry leaders and fintech entrepreneurs for an in-person collaboration to address issues related to mortgage market efficiency, equity, and inclusion.

Work Towards Implementing New Credit Score Requirements

FHFA and the Enterprises have undertaken significant efforts to begin the process of implementing new credit score requirements for single-family loans delivered to the Enterprises. These new requirements include the use of scores from two models, FICO 10T and VantageScore 4.0, as well as the use of credit reports from a minimum of two, rather than three, nationwide consumer reporting agencies.

Since the Agency began considering modernization of the Enterprises' credit score requirements in 2014, stakeholder engagement has been a critical element of this work, and continued engagement will be key to a successful implementation process. FHFA recognizes that credit scores touch almost every aspect of the mortgage finance system. The implementation timeline and target dates for updating the Enterprises' requirements need to be both ambitious and flexible to accommodate the multiyear process.

In September 2023, FHFA launched the next phase of public engagement to support adoption of the new requirements. This phase includes stakeholder forums and listening sessions that will allow for identification of a wide variety of issues, opportunities, and challenges related to successful implementation of the new requirements, including potential refinements to the timeline for adoption. FHFA believes this enhanced stakeholder engagement will identify and troubleshoot potential concerns and better ensure that all members of the mortgage finance system are prepared for implementation of the new requirements.

Climate Risk Management

Throughout FY 2023, FHFA made substantial progress in helping to identify and manage climate-related risks at its regulated entities. In FY 2024, FHFA and its regulated entities will continue to conduct research on how climate change affects the housing market. In addition, the Agency currently plans for the Fall 2024 Econ Summit to be dedicated to climate risk. FHFA and the regulated entities also will continue work on incorporating climate risk into corporate governance, assessing climate exposure via scenario analyses and other methods, enhancing climate-related reporting and disclosures, and protecting vulnerable consumers. The Agency and its regulated entities will also continue to collaborate with interagency partners and industry stakeholders to address climate risk.

FHFA plans to issue an Advisory Bulletin (AB) in FY 2024 to provide the Enterprises guidance on managing climate risk to support a safe and sound operating environment. Although climate risk affects the U.S. housing system and Enterprises in various ways, this AB will address key climate risks that could affect the Enterprises' financial condition through their business and operations. FHFA's supervisory expectations for managing climate risk will take into consideration known best practices, standards, and regulatory developments.

Update Loss Mitigation Framework

In FY 2024, FHFA will continue to evaluate the Enterprises' loss mitigation solutions designed to help struggling homeowners who need mortgage payment assistance. The Enterprises continue to examine lessons learned from the COVID-19 pandemic that might inform enhancements to the standard loss mitigation solutions, with the goal of improving the ability of mortgage servicers to assist struggling homeowners with retaining their homes, while minimizing losses to the Enterprises and, ultimately, to taxpayers. For example, based on the success of the COVID-19 payment deferral, FHFA announced in March 2023 that the Enterprises would enhance their payment deferral policies to allow borrowers facing financial hardship to defer up to six months of mortgage payments as part of the standard loss mitigation toolkit.

FINANCIAL SUMMARY

ANALYSIS OF FINANCIAL STATEMENTS

Overview

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

How Is FHFA Financed?

HERA authorizes FHFA to collect annual assessments from the Enterprises and the FHLBanks to cover the costs of performing the Agency's statutory responsibilities related to supervision of the regulated entities, its conservatorships, and other responsibilities, and to maintain a working capital fund. FHFA is financed through revenue from assessments and is considered a non-appropriated entity. (FHFA does not receive any appropriated funds from Congress.) In addition to the collection of assessments, HERA authorizes FHFA to invest the idle portions of the assessments through the Treasury Federal Investment Program, which is available exclusively to federal government organizations. (See Financial Statement Note 1.G for further explanation of investments.)

Annually, FHFA determines the total expected costs associated with regulating the Enterprises and the FHLBanks. The expected costs are shared proportionally among the Enterprises and the FHLBanks in accordance with FHFA's assessment regulation, 12 CFR § 1206.6. FHFA issues assessment notices to the regulated entities semi-annually, with the collections occurring October 1 and April 1. In FY 2023, FHFA assessed the entities a total of $386.1 million, including $55.0 million to support OIG.

Under HERA, FHFA is authorized to retain a working capital fund for unforeseen or emergent requirements, which can be funded through a special assessment to the entities or through retention of unobligated balances at the end of the fiscal year. At the end of FY 2023, the FHFA working capital fund had a balance of $54.7 million.

What Is an Unmodified Opinion?

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

FHFA's Financial Statements

The principal financial statements present FHFA's financial position (Balance Sheets), Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources for FY 2023 and FY 2022. GAO's audit report, along with complete financial statements and notes for FY 2023 and FY 2022, appear on pages 73-104.

Limitations of the Financial Statements

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

FY 2023 COVID-19 – FINANCIAL IMPACT ON FHFA

The end of the federal COVID-19 Public Health Emergency (PHE) was declared on May 11, 2023. As a non-appropriated entity, FHFA used its existing resources to support necessary activities to ensure safety of its employees and facilities and implement Agency activities and policy changes to support the regulated entities. FHFA did not receive additional funding to support these activities. All costs are included in appropriate financial statements discussed below.

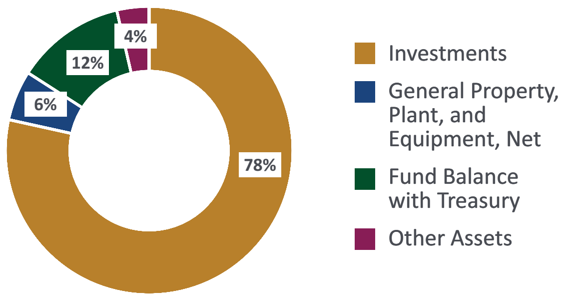
WHAT IS FHFA'S NET POSITION AND NET COSTS?

Balance Sheet (Assets - Liabilities = Net Position)
The Consolidated Balance Sheet presents, as of September 30, 2023, the recorded value of assets (funding, property, and amounts owed to FHFA), and liabilities (amounts FHFA owes, retained or managed by FHFA). The difference between the assets and liabilities represents FHFA's net position.

Assets

At year-end FY 2023, FHFA had $171.6 million in assets. The largest asset groups include: Investments (78 percent), Fund Balance with Treasury (12 percent), General Property, Plant, and Equipment, Net (6 percent), and Other Assets (including Advances and Prepayments and Accounts Receivable) (4 percent), as displayed in Figure 5. FHFA's investment portfolio included semi-annual assessment payments from its regulated entities and the working capital fund. FHFA invests solely in market-based Government Account Series one-day certificates issued by Treasury to efficiently use idle funds with minimum risk in accordance with statutory authorities.

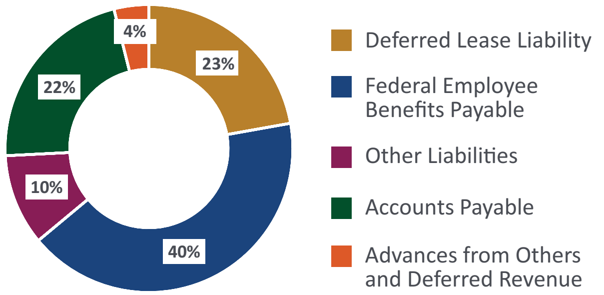
Figure 5: Distribution of Total Assets for FY 2023



Liabilities

At year-end FY 2023, FHFA had $55.5 million in liabilities. FHFA's major liabilities (amounts owed by FHFA to other entities) include Federal Employee Benefits Payable (40 percent), Deferred Lease Liability (23 percent), Accounts Payable (22 percent), Other Liabilities (10 percent), and Advances from Others (4 percent), as displayed in Figure 6. The largest component in the Federal Employee Benefits Payable category is Unfunded Accrued Annual Leave, consisting of amounts resulting from accumulated, unused employee leave.

Figure 6: Distribution of Total Liabilities for FY 2023



The second largest category is Deferred Lease Liability (rent), which is the difference between the straight-line monthly rent calculation based on the lease term and the amount of cash disbursements paid to date for rent at the end of the fiscal year. Determination and recording of deferred rent is applicable to the non-federal lease agreement on the property at 400 7th Street SW, Constitution Center, Washington, D.C. The Constitution Center tenant allowance is the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease. The third largest liability is Accounts Payable. These are amounts owed to commercial vendors supporting FHFA legal services and mission support activities.

Net Position

FHFA's net position (assets-liabilities) increased by 27 percent, or $24.6 million, in FY 2023, primarily due to the increase in investments and the working capital fund. The Total Assets increase is largely due to major factors: (1) financing required for multi-year capital projects including the continued modernization of FHFA's public reporting platforms, oversight support programs, and technology infrastructure; and (2) the increase in Special Assessments collections for FY 2023. In accordance with the FHFA regulation, Special Assessments can be used to support conservatorship-related legal services and supporting activities. The 1 percent change in Total Liabilities is a combination of decreases in Deferred Lease Liability ($2.9 million) and Accounts Payable ($0.2 million); and increases in Federal Employee Benefits Payable ($1.2 million), Advances from Others ($0.6 million), and Other Liabilities ($0.4 million). A comparison of the condensed FY 2023 and FY 2022 Balance Sheets is displayed in Table 3. The complete Balance Sheets can be found on page 82.

Table 3: FHFA Condensed Balance Sheets
(dollars in thousands*)

	FY 2023	FY 2022	Percent change
Total Assets	$171,617	$147,716	16%
Total Liabilities	55,536	56,255	(1%)
Total Net Position	$116,081	$91,461	27%

**Amounts are rounded for presentation purposes.*

Net Costs

The Statements of Net Cost reflects gross cost of operating the Agency, by strategic goal, less related revenues. The Statements of Net Costs represents the full cost of operating FHFA, consolidated with the costs of operating the FHFA OIG. Gross program costs for FY 2023 are $386.0 million, which is an increase of $47.6 million above the FY 2022 gross program costs of $338.4 million.

HOW DOES FHFA GENERATE REVENUE?

In accordance with HERA, FHFA collected through the semi-annual assessment process $386.1 million during FY 2023, which included a $55 million assessment for costs related to the operations of the FHFA OIG. Regulated entity assessments account for approximately 97.1 percent of Agency revenues.

The other 2.9 percent of the revenue is generated from sources such as reimbursable agreements with other federal agencies, interest earned on overnight investments, and employee reimbursements. Revenue for FY 2023 was 24 percent more than FY 2022 due to higher total assessments for total costs to support the Agency including staff for mission support programs, legal and financial services. As a component of revenue, FHFA is allowed to retain earned interest on unobligated balances during the year. As interest rates continued to increase during FY 2023, FHFA's revenue from earned interest increased 694 percent, or by $8.7 million above interest earned in FY 2022. FHFA's summary costs and revenue are reflected in the Statements of Net Cost for FY 2023 and FY 2022 as presented in Table 4.

Table 4: Summarized Costs and Revenue
(dollars in thousands*)

	FY 2023	FY 2022
Costs	$386,002	$338,354
Revenue	(397,513)	(320,327)
Net Cost from Operations	($11,511)	$18,027

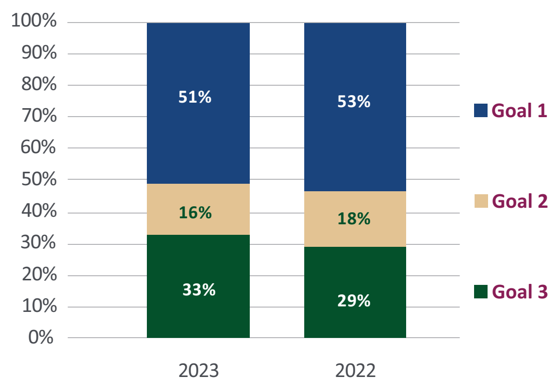
**Amounts are rounded for presentation purposes.*

HOW DOES FHFA ALIGN COSTS TO STRATEGIC GOALS?

For FY 2023, FHFA assigned costs to the three strategic goals established by FHFA's 2022-2026 Strategic Plan. These Strategic Goals are: (1) Secure the regulated entities' safety and soundness, (2) Foster housing finance markets that promote equitable access to affordable and sustainable housing, and (3) Responsibly steward FHFA's infrastructure. In mid-FY 2022, FHFA issued a new Strategic Plan which renamed Strategic Goal 2 to emphasize the focus on promoting equitable access to affordable housing, while Strategic Goals 1 and 3 remained relativity static in both name and anticipated outcomes. The strategic goals comparison provided in Figure 7 on this page and in the Statements of Net Cost is an accurate representation of FHFA's programs between the two years.

Effective and efficient agency-wide services and management and administrative systems are essential to achieve FHFA's mission and strategic goals. Indirect costs are distributed proportionately to the three strategic goals based on the percentage of direct program costs allocated to each goal to the total direct program costs for the Agency (individual program costs/total direct program costs). FHFA OIG costs are allocated as part of FHFA's indirect costs. The distribution of FHFA's gross costs by strategic goal for FY 2023 and FY 2022 are presented in Figure 7.

Figure 7: Gross Costs by Strategic Goal



In FY 2023, Goal 1 was FHFA's largest program area at $196.5 million, or 51 percent of total gross costs. The next largest program area was Goal 3 at $126.2 million, or 33 percent. Goal 2 was the smallest of the three program areas at $63.3 million, or 16 percent. Overall, gross costs increased from FY 2022 to FY 2023 due to critical investment in technology modernization efforts supporting mission, climate risk, and the continued focus on expanding the Agency's research capacity.

HOW DOES FHFA ASSESS INTERNAL CONTROLS?

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

Federal Managers' Financial Integrity Act (FMFIA)

Internal controls are essential to effective agency management and provide reasonable assurance that the following objectives will be achieved: reliability of reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations. FMFIA establishes management's responsibility to assess and report on internal accounting and administrative controls. The assessment includes the mission, operational, and administrative areas, including accounting and financial management. FMFIA requires federal agencies to establish controls that reasonably ensure that obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable reports and to maintain accountability over the assets.

During FY 2023, FHFA adhered to the internal control requirements of FMFIA and the guidance provided by OMB Circular A-123: Management's Responsibility for Enterprise Risk Management and Internal Control. FHFA's Audit, Risk, and Control Committee (ARCC).

During FY 2023, FHFA monitored and assessed the following areas:

FHFA OIG

To ensure compliance with the internal control requirements of FMFIA, and in accordance with A-123, the FHFA OIG has maintained an Executive Committee on Internal Controls (ECIC), which is chaired by the Assistant Inspector General for Compliance. The ECIC is tasked with assessing internal controls at OIG. Membership on the ECIC includes the deputy inspector general, the chief counsel, the chief information officer, the chief information security officer, and the budget and finance director.

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

Reliability Over Financial Reporting

FHFA conducted an independent assessment of the Agency's controls over financial reporting using a risk-based approach. The Agency completed the assessment and reported the results to the Agency's Senior Assessment Team (SAT) and the ARCC. The assessment determined that there were no material weaknesses that adversely affect internal controls over financial reporting.

Reliability Over Non-Financial Reporting

Assessment teams from FHFA divisions and offices reviewed controls over a sample of non-financial reports using guidance from the GAO *Standards for Internal Control in the Federal Government,* GAO 14-704G, (GAO Green Book).[11] Division management officials and staff reviewed the completed assessments. FHFA reviewed the completed assessments and results from across the Agency and reported the results to the SAT and the ARCC. The assessment determined that there were no material weaknesses that adversely affect the controls over non-financial reporting.

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, the Agency's Office of General Counsel reviewed the submissions, and FHFA reported the results to the SAT and the ARCC. The assessment determined that there were no material weaknesses that adversely affect the compliance with laws and regulations.

Effectiveness and Efficiency of Operations

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

Assessment Reporting

The ARCC reviewed the assessment and recommended an unmodified statement of assurance. In compliance with FMFIA and HERA, 12 U.S.C. § 4516(g) requirements, the FHFA Director, on the basis of a recommendation from ARCC, provided reasonable assurance that internal controls over the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and non-financial and financial reporting as of September 30, 2023, were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

Federal Management Information Systems 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, such as the Federal Financial Management Improvement Act of 1996, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. FHFA, including the FHFA OIG, uses the Bureau of the Fiscal Service (Fiscal Service) for its accounting services and its financial management system (FMS),

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

which includes: 1) a core accounting system—Oracle Federal Financials; 2) four feeder systems—Procurement Request Information System Management, Concur (travel), Invoice Processing Platform (payments), and CitiDirect (charge card); 3) a reporting system—Oracle Business Intelligence; and 4) an inventory tracking system. In FY 2023, FHFA began using the new G-Invoicing platform for interagency agreements as mandated by Department of Treasury for all federal agencies. FHFA is responsible for overseeing Fiscal Service performance of accounting services for the Agency based on the terms and assignment of activities outlined in the Interagency Agreement.

FHFA's oversight of Fiscal Service is documented in the Agency's Accounting Manual and procedures. A financial oversight document outlines the assignment of activities between FHFA and Fiscal Service. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of the Safety and Soundness Act Section 1316 (g)(3). FHFA and the FHFA OIG also use the Interior Business Center (a service provider within the U.S. Department of Interior) and the National Finance Center (a service provider within the U.S. Department of Agriculture) for payroll and personnel processing. FHFA has streamlined accounting processes by electronically interfacing data from charge cards, investment activities, the Concur travel system, the procurement system, interagency agreements, the Invoice Processing Platform payments system, the Interior Business Center payroll system, and the National Finance Center payroll system to FMS.

Federal Information Security Modernization Act (FISMA)

FISMA requires all federal agencies to develop and implement an Agency-wide Information Security Program to protect information and systems, including those provided or managed by another agency, contractor, or other source. In addition, FISMA mandates that agencies undergo an annual independent evaluation of their Information Security Program and practices, as well as an assessment of compliance with FISMA requirements.

The FHFA OIG contracted with an independent external audit firm to conduct performance audits of FHFA and FHFA OIG's Information Security Programs and practices as per U.S. Generally Accepted Government Auditing Standards. The objectives of the audit were to evaluate the effectiveness of FHFA's and FHFA OIG's Information Security Program and practices and respond to the Department of Homeland Security's FY 2023 Inspector General FISMA Reporting Metrics. The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from National Institute of Standards and Technology Special Publication 800-53, Revision 5, Security and Privacy Controls for Federal Information Systems and Organizations.[12]

The audit concluded that both FHFA and FHFA OIG's Information Security Programs operated effective information security programs that complied with FISMA and related information security policies and procedures, standards, and guidelines. The auditor reviewed and verified corrective actions taken by FHFA and FHFA OIG during the FY 2023 FISMA audit. 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 2023, the dollar amount subject to prompt payment was $125.2 million. The amount of interest penalty paid in FY 2023 was $480.00.

Digital Accountability and Transparency Act of 2014

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

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

FHFA STATEMENTS OF ASSURANCE

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November 8, 2023

Federal Managers' Financial Integrity Act
Statements of Assurance
Fiscal Year 2023

Federal Housing Finance Agency (FHFA) management is responsible for establishing and maintaining effective internal control and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, which include the following:

- Reliability of (financial and non-financial) reporting;
- Compliance with laws and regulations; and
- Effectiveness and efficiency of operations.

FHFA conducted its assessment of risk and internal controls in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations, as of September 30, 2023, were operating effectively and no material weaknesses were found in the design or operation of the internal controls.

FHFA's internal control over financial reporting is a process effected by those charged with FHFA's governance and management, and by other personnel. The objectives of this process are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, including complementary user entity controls and entity level controls, in accordance with 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, 2023, were operating effectively and no material weaknesses were found in the design or operation of internal controls over financial reporting.

The Housing and Economic Recovery Act of 2008 (HERA), 12 U.S.C. § 4516.g requires FHFA to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements. FHFA conducted a review of its financial management system in accordance with OMB Circular A-123, Appendix D. 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, 2023.

Sincerely,

Sandra L. Thompson
Director

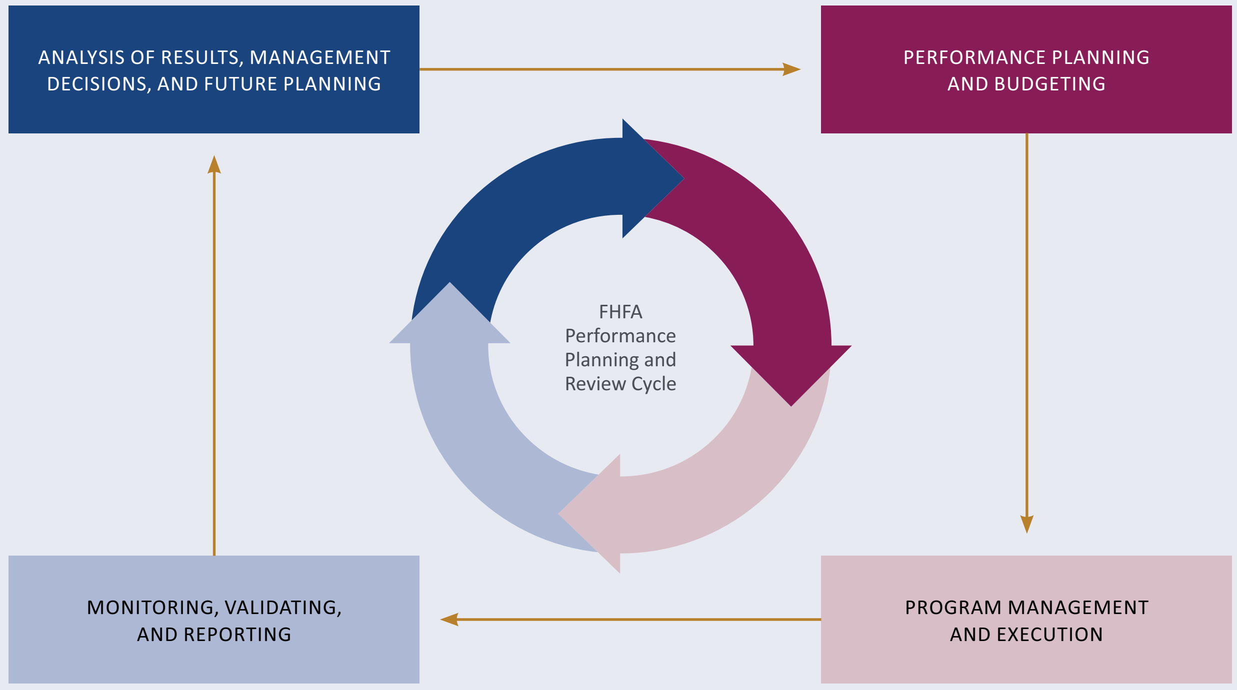
Mark Kinsey
Chief Financial Officer

Performance Section

FHFA'S PERFORMANCE PLANNING AND REVIEW PROCESS

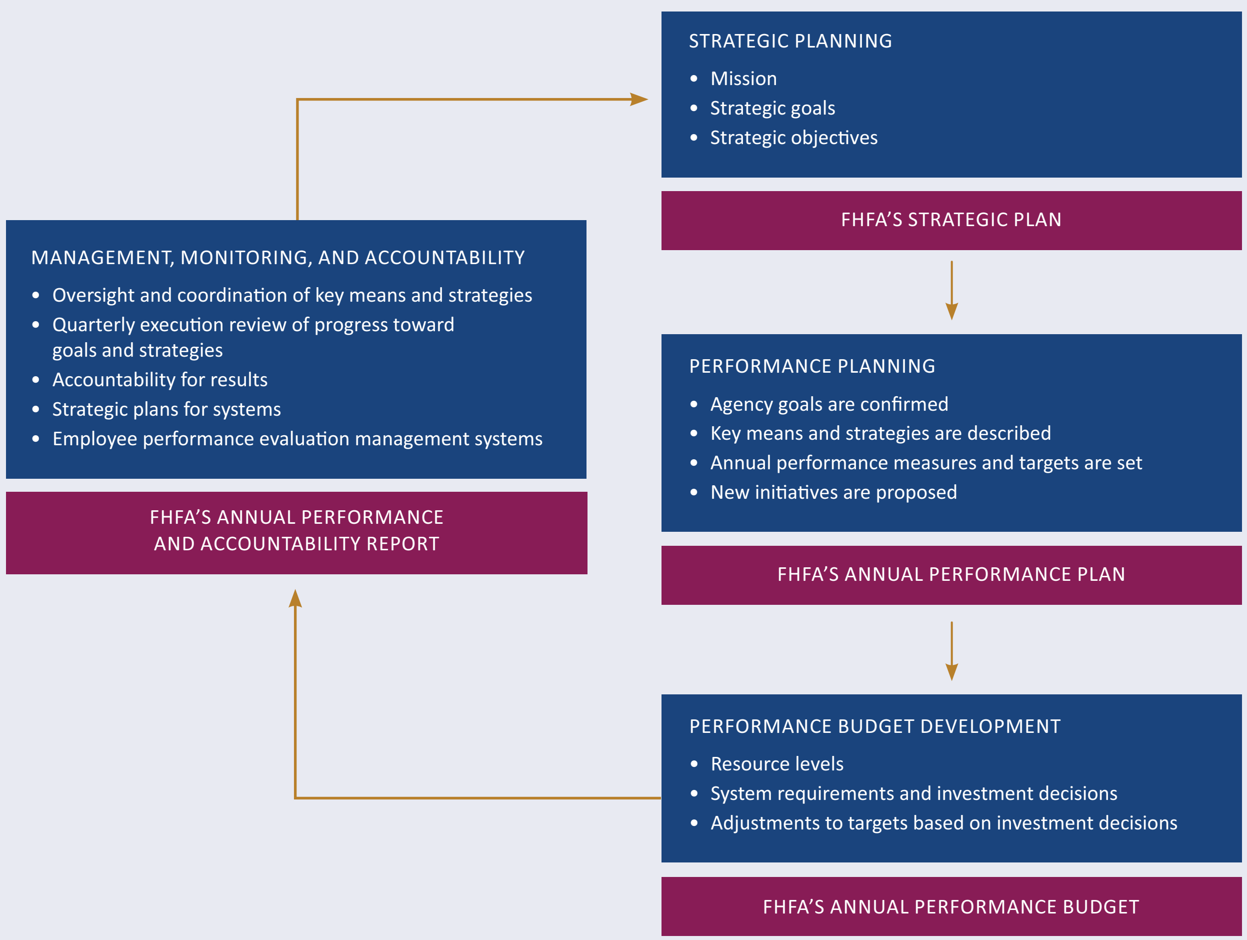
This section provides an overview of the Federal Housing Finance Agency's (FHFA) performance planning and review framework and processes. FHFA's performance management process involves a recurring cycle of planning; program management and execution; measurement, monitoring and evaluation; verification,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

Figure 8: FHFA's Performance Management Cycle



The first step in FHFA's performance management process is to develop the Agency's Strategic Plan, which identifies FHFA's strategic goals (longer-term outcome level results), strategic objectives (intermediate results that need to be achieved to accomplish the strategic goals), and means and strategies for achieving the strategic objectives. The Strategic Plan as outlined in FHFA's FY 2023 Annual Performance Plan (APP) forms the basis of this FY 2023 Performance and Accountability Report (PAR). The APP provides operational detail on how progress will be made toward the strategic goals and strategic objectives, and it identifies performance measures that include annual targets to track progress toward the strategic objectives. FHFA conducts quarterly performance reviews of progress toward annual performance measure targets. Goal leaders submit quarterly data for the performance measures and targets for which they are responsible. Performance data on results are validated and verified, then reported in the annual PAR. FHFA's senior leadership reviews the quarterly reports to monitor progress toward achieving planned performance and the strategic goals. Performance data are reviewed and analyzed throughout the year to monitor the Agency's progress in achieving planned performance levels and are used to influence management and planning decisions, which feed into the next annual performance planning process. Figure 9 illustrates FHFA's performance planning and review process.

Figure 9: FHFA's Performance Planning and Review Process



VALIDATION AND VERIFICATION OF PERFORMANCE DATA

To ensure that the information reported in FHFA's FY 2023 PAR is complete and reliable, FHFA identifies, verifies, and validates the data for each performance measure. FHFA has included a template of its Performance Measure Validation and Verification form on page 129.

Furthermore, every quarter, each office or division collects performance data for its measures and reports the results in the Agency's performance tracking system. FHFA staff follows documented performance tracking and verification procedures to verify and validate the data provided to ensure that the information is accurate and complete. Agency staff review the information provided by offices on their performance measures on a quarterly basis, verifying and validating supporting data and documents for completeness, clarity, relevance, and accuracy. A quarterly report summarizing this information is sent to senior management officials.

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

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

STRATEGIC GOAL 1: SECURE THE REGULATED ENTITIES' SAFETY AND SOUNDNESS

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

STRATEGIC GOAL 1 – SELECTED ACCOMPLISHMENTS

FHFA achieved several accomplishments in Fiscal Year (FY) 2023 that contributed to progress toward the strategic goal. Selected FY 2023 accomplishments include:

Advisory Bulletin on Valuation of Mortgage Servicing Rights

On January 12, 2023, FHFA issued Advisory Bulletin (AB) 2023-01: Valuation of Mortgage Servicing Rights for Managing Counterparty Credit Risk. The AB communicates FHFA's supervisory expectations for the Enterprises to establish and implement risk management policies and procedures for monitoring and valuing seller/servicers' mortgage servicing rights (MSRs). MSRs are an important component in the Enterprises' evaluation of a seller/servicer's financial capacity, which affects counterparty risk management practices, such as assigning risk ratings and setting risk limits. FHFA determined that the Enterprises should have an overall risk management framework that ensures MSR values are reasonable, objective, and transparent through their own independent evaluation of seller/servicer MSRs.

Supplemental Model Risk Advisory Bulletin

On December 21, 2022, FHFA issued AB 2022-03: Supplemental Guidance to Advisory Bulletin 2013-07: Model Risk Management Guidance. This AB is applicable to the Enterprises, the Federal Home Loan Banks (FHLBanks), and the Office of Finance (OF). It clarifies and expounds on various topics covered in FHFA's existing guidance. The intent of this supplemental guidance, formatted as Frequently Asked Questions, is to provide guidelines that address gaps in AB 2013-07. This was prompted by changes in model-related technologies and questions that were generated from the expanded use of complex models by the FHLBanks. The supplemental guidance also addresses model documentation, the communication of model limitations, model performance tracking, on-top adjustments, challenger models, model consistency, and internal stress testing. FHFA developed the AB to address issues encountered in supervising and examining the regulated entities. The guidance also reflects input gathered from consultations with other financial regulators and comments from the regulated entities.

ADVISORY BULLETINS

FHFA issues ABs, which are public documents that communicate the Agency's supervisory expectations in particular areas. ABs support FHFA examinations of the regulated entities with respect to specific supervisory matters and topics.

New Review Cycle for Diversity and Inclusion Exams

After reviewing the examinations of the regulated entities' Diversity and Inclusion (D&I) programs from five previous examination cycles, FHFA concluded that it could examine the D&I programs of the FHLBanks on an extended interval. In the second quarter of 2022, FHFA commenced examining the D&I program of one FHLBank or OF each quarter. Generally, an FHLBank and OF will undergo a D&I examination every three years.

Enhancements to the Enterprise Regulatory Capital Framework

In March 2023, FHFA published a notice of proposed rulemaking seeking comments on amendments to the Enterprise Regulatory Capital Framework (ERCF) that would modify various components of the Enterprises' regulatory capital requirements. Key refinements in the proposed rule relate to determining risk-weighted assets and adjusted total assets for cross guarantees on commingled securities (when there is a resecuritization where the underlying collateral includes securities that are issued and guaranteed by both Fannie Mae and Freddie Mac), to implementing a risk multiplier for multifamily mortgage exposures secured by properties with certain government subsidies, and to computing exposure amounts for derivatives and cleared transactions. The proposed rule would also modify provisions related to credit scores, guarantee assets, mortgage servicing assets, time-based calls for credit risk transfer exposures, interest-only mortgage-backed securities, the single-family countercyclical adjustment, the stability capital buffer, and the compliance date for the advanced approaches.

The public comment period for the proposed rule closed in May 2023. FHFA is currently reviewing the feedback.

ENTERPRISE REGULATORY CAPITAL FRAMEWORK

The Enterprise Regulatory Capital Framework is a going-concern regulatory capital standard which ensures that each of Fannie Mae and Freddie Mac operates in a safe and sound manner and is positioned to fulfill its statutory mission to provide stability and ongoing assistance to the secondary mortgage market throughout the economic cycle. To enhance the safety and soundness of the Enterprises, FHFA amended the Enterprise Regulatory Capital Framework three times in 2022. First, FHFA modified the leverage buffer and the risk-weight floor for retained credit risk transfer transactions to lessen potential disincentives to risk transfer. Second, FHFA enhanced the framework's public disclosure requirements to improve market discipline and encourage sound risk management practices at the Enterprises. Finally, FHFA implemented requirements that each Enterprise submit annual capital plans to FHFA and provide prior notice for certain capital actions. The capital planning requirements allow the Enterprises to identify the amount of capital they need to raise to meet the requirements in the Enterprise Regulatory Capital Framework and to consider the timing of when to raise capital and what types of capital to raise. The amendments help provide a stable regulatory capital framework for the Enterprises as they continue to build capital, as well as after they achieve adequate capitalization under the Enterprise Regulatory Capital Framework.

Enhancements to Private Mortgage Insurer Eligibility Requirements

The Enterprises' Private Mortgage Insurer Eligibility Requirements include standards for assets held by private mortgage insurers (MI) to pay claims (Available Assets) to ensure that these assets are liquid and readily available to pay claims. FHFA and the Enterprises are currently reviewing these standards to ensure that Available Assets are high quality, highly liquid assets. Importantly, this exercise does not limit or prescribe individual MI investment or portfolio management choices, but rather refines which of those investments the Enterprises would consider sufficiently liquid to be considered Available Assets.

Considerations for refining the standards for Available Assets include differentiating between bonds of higher or lesser credit quality and higher or lesser liquidity, as well as addressing appropriate limits for assets backed by residential credit or commercial real estate to mitigate wrong-way risk (i.e., the likelihood that such assets would lose value during periods of housing stress when the MIs may need to sell these assets to pay claims). The updated standards will help mitigate the Enterprises' exposure to counterparty risk and better prepare them to withstand a stress scenario.

Climate Risk Management at the FHLBanks

On March 6, 2023, FHFA conducted the *FHLBank System at 100: Focusing on the Future* Roundtable Discussion on Climate Resiliency. The roundtable included topics such as resilient building, disaster recovery efforts, risk management and tradeoffs, consumer awareness, consumer protections, and transition risk. On Apri1 28, 2023, the FHLBank of Dallas published its 2022 Environmental, Social, and Governance (ESG) Report,[13] a first for the FHLBank System. On June 30, 2023, the FHLBanks published their inaugural Corporate Social Responsibility Report.[14] The Report focuses on how the System addresses housing needs, serves renters, borrowers, and homeowners, strengthens local economies, and supports communities facing environmental and social challenges. The Report also includes corporate sustainability highlights from each FHLBank.

Throughout FY 2023, in its supervisory role, FHFA continued to review how the FHLBanks and OF are considering the risks associated with climate change and natural disasters. For example, FHFA staff completed an assessment of the responses from these entities to its Climate Change, ESG, and Natural Disaster Horizontal Review, which collected information on the FHLBanks' consideration of climate change risk, plans for reporting and disclosures, and actions and strategies for responding to natural disasters.

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[13] **https://www.fhlb.com/getmedia/9cd26f43-96eb-4ac0-9dad-e109fd4abdb5/FHLBank-ESG-Report.pdf**.

[14] **https://fhlbanks.com/wp-content/uploads/2023/06/FHLB_CSR_Report.pdf**.

Enterprise ESG Reporting and Greenhouse Gas Metrics

FHFA has engaged in various initiatives to better understand the potential impacts of climate and ESG developments on the regulated entities and mortgage markets. Development and reporting of consistent, useful ESG metrics are important components of fostering resiliency in the secondary mortgage market.

In FY 2023, FHFA oversaw the Enterprises' work in enhancing the transparency, accountability, and alignment of their publicly reported ESG metrics. The Agency also oversaw development of quantitative climate metrics, including greenhouse gas (GHG) emissions, and began monitoring Enterprise GHG emissions data and reporting readiness to align with industry practices for enhancement and standardization of climate-related disclosures.

CLIMATE CHANGE AND ESG STEERING COMMITTEE

Established in FY 2022, FHFA's Climate Change and ESG Steering Committee informs decision-making on climate-related objectives throughout the Agency. It serves as a forum for the discussion of the means and strategies for achieving Agency goals related to Climate Change and ESG. It also serves as a forum for updates and discussion among Agency leadership of developments related to Climate and ESG topics and progress made by FHFA's regulated entities.

FHFA's eight Climate Change and ESG working groups directly report to the Steering Committee, to whom they submit project plans at the beginning of each calendar year. Since FY 2022, they have also met with the Steering Committee on a quarterly basis to discuss progress made on designated goals.

Social Bonds

In February 2023, FHFA issued a Request for Input (RFI) on the development and issuance of single-family social bonds, which have the potential to support and enhance the Enterprises' shared mission to increase fair and sustainable access to credit in underserved markets. The RFI builds on the Enterprises' current practice of issuing multifamily social bonds and single-family affordable bonds, and it responds to industry and investor demand for the development of a robust approach to single-family social bonds. The RFI sought feedback on defining eligibility criteria, borrower benefits, and impact reporting.

FHFA received responses from a range of stakeholders, including trade associations, investors, lenders, think tanks, consumer advocates, and consumers. The vast majority of stakeholders expressed overall positive sentiment in favor of developing a social bond program. In general, the respondents viewed social bonds as a potentially positive tool to increase liquidity in underserved markets. Some respondents urged the Enterprises to increase transparency in impact reporting and eligibility and be flexible and responsive to changing market conditions. FHFA and the Enterprises reviewed the feedback and are considering the concerns and risks raised by respondents as part of the development of a single-family social bond program to support the Enterprises' statutory mission and charter.

STRATEGIC OBJECTIVE 1.1: IDENTIFY RISKS TO THE REGULATED ENTITIES AND ASSESS THE SAFETY AND SOUNDESS OF REGULATED ENTITY OPERATIONS

FHFA assesses the safety and soundness of the regulated entities' operations through annual examinations, targeted examinations, ongoing monitoring, and reviews. FHFA uses a uniform examination rating system to assign ratings to the Enterprises, the FHLBanks, and OF. FHFA annually assigns each regulated entity a composite rating for the overall condition of the entity. In FY 2023, FHFA monitored nine measures for Strategic Objective 1.1 and met the targets for eight of the measures. The table below reports progress on these measures.

Table 5: Strategic Objective 1.1 – Summary of Performance Measures and Results

Strategic Objective 1.1: Identify risks to the regulated entities and assess the safety and soundness of regulated entity operations							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises and Common Securitization Solutions by having written risk-based examination plans approved by January 31	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.1b: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.2a: Approve reports of examination by April 15[15] for the Enterprises and Common Securitization Solutions	NOT MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.2b: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks	MET	MET	MET	MET	MET	100 percent of the time	NOT MET
1.1.3: Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized on a quarterly basis	MET	MET	MET	MET	MET	100 percent of the time	MET

[15] Or the first business day after if the date falls on a weekend.

Table 5: Strategic Objective 1.1 – Summary of Performance Measures and Results							
1.1.5: Conduct quarterly reviews of review of regulated entity public filings	N/A[16]	N/A	N/A	MET	MET	100 percent of the time	MET
1.1.6a: Approve Diversity and Inclusion reports of examination by April 15[17] for the Enterprises and Common Securitization Solutions	N/A	N/A	N/A	N/A	NOT MET	100 percent of the time	MET
1.1.6b: Approve Diversity and Inclusion reports of examination for at least four of the FHLBank System regulated entities	N/A	N/A	N/A	N/A	MET	100 percent of the time	MET

PERFORMANCE MEASURE 1.1.1A: Conduct risk-focused supervision and examinations of the Enterprises and Common Securitization Solutions by having written risk-based examination plans approved by January 31

PERFORMANCE MEASURE 1.1.1B: Conduct risk-focused supervision and examinations of the FHLBanks by having written risk-based examination plans in place prior to the commencement of examinations for each of the FHLBanks

Risk-based examinations focus FHFA resources on areas of greatest risk. Risk-based scope documents communicate important areas of focus to staff and aid in the overall examination planning process. FHFA met this measure for FY 2023 as explained in the following paragraph.

- **The Enterprises:** FHFA examiners examine each Enterprise on a continuous basis and annually for Common Securitization Solutions (CSS). FHFA maintains a written risk-based examination plan for each Enterprise and CSS for every annual supervisory cycle. To conduct risk-focused supervision and examinations, the examination plans should be approved prior to the commencement of the upcoming supervisory cycle. The target date for approval of the 2023 examination plans was January 31, 2023. Each plan enumerates examination activities for different risk management and business areas. Examination areas include credit risk, market risk, operational risk, model risk, and governance. Examination plans are reviewed during the supervisory cycle and may be amended to reflect changes in risk profile or the Enterprise's or CSS's operations. The 2023 examination plans for Fannie Mae, Freddie Mac, and CSS were approved by the DER Deputy Director by the target date.
- **FHLBanks and OF:** FHFA examines the FHLBanks and OF annually on a Calendar Year (CY) basis. Examinations have specified beginning and end dates and are generally performed at a pace of three entities each quarter. FHFA's examination plans are called scope memoranda, which include analyses of the institution's risks, a schedule of examination work, and details regarding staff responsibilities. For FY 2023, scope memoranda were in place prior to the start of every FHLBank and OF examination.

[16] "N/A" or "not available" means that FHFA did not report data in prior PARs for the marked measures.

[17] Or the first business day after if the date falls on a weekend.

PERFORMANCE MEASURE 1.1.2A: Approve reports of examination by April 15[18] for the Enterprises and Common Securitization Solutions

PERFORMANCE MEASURE 1.1.2B: Approve reports of examination within 90 days after completing examination work for each of the FHLBanks

FHFA communicates supervisory results, findings, and expectations for remedial action to the Enterprises, the FHLBanks, and OF through supervisory correspondence and reports of examination (ROEs). ROEs summarize key examination findings for the prior year and include ratings assigned in accordance with the Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk (CAMELSO) ratings framework. In FY 2023, FHFA met the target dates for approving ROEs for the Enterprises and CSS. However, the Agency missed the target for FHLBanks and OF due to unexpected delays with one ROE.

- **The Enterprises and CSS:** FHFA issues ROEs that document and communicate its supervisory findings and conclusions for the examination year. The ROE reflects FHFA's view of the regulated entity's financial condition, its risk profile, and the adequacy of its risk management practices. Each Enterprise's ROE includes the composite and CAMELSO ratings and CSS's ROE includes the composite and the Management and Operational Risk component ratings assigned by the Examiner-in-Charge. The target date for approval by the DER Deputy Director for each ROE was April 15. FHFA approved the ROEs for Fannie Mae, Freddie Mac, and CSS by the target date.
- **FHLBanks:** ROEs summarize DBR's examination conclusions and principal findings, communicating them to the Bank and outlining supervisory expectations. The Deputy Director for DBR approves each ROEs within 90 days of the exit meeting that concludes examination work. DBR assesses this measure's status each quarter, typically with three ROEs per quarter. During 2023, the DBR Deputy Director approved 11 of 12 (92 percent) ROEs within 90 days of the exit meetings. The target for this measure is 100 percent.

[18] Or the first business day after if the date falls on a weekend.

FINANCIAL CONDITION OF THE ENTERPRISES

Under the Preferred Stock Purchase Agreements (PSPAs), the Enterprises are constrained in their ability to take certain actions without the prior written consent of the U.S. Department of the Treasury (Treasury) while in conservatorship. In September 2019, FHFA and Treasury agreed to remove the existing requirement that the Enterprises pay out to the Treasury any excess capital beyond a combined $6 billion as dividend to the senior preferred shares, a provision also known as the net worth sweep. As amended in September 2019, FHFA and Treasury agreed to increase the Capital Reserve Amount to $25 billion for Fannie Mae[19] and $20 billion for Freddie Mac[20] beginning with the July 1, 2019 dividend period. In January 2021, FHFA and Treasury again amended the PSPA to effectively end the net worth sweep through a Letter Agreement that further increased the amount of retained earnings that each Enterprise could keep as of October 1, 2020, to the amount of adjusted total capital necessary to meet the capital requirements and buffers set forth in the final capital rule.[21] As a result, the Enterprises' net worth increased to $73.7 billion for Fannie Mae and $44.7 billion for Freddie Mac by the end of FHFA's FY 2023.

However, the agreement also increases the liquidation preference of the Senior Preferred Stock by the amount of any increase in the Enterprises' net worth each quarter.[22] In September 2021, FHFA and Treasury suspended certain provisions that were added to the PSPA in January 2021.[23] The suspended provisions include limits on the Enterprises' cash windows (loans acquired for cash consideration), multifamily lending, loans with higher risk characteristics, and second homes and investment properties. The Enterprises will continue to build capital under the continuing provisions of the PSPAs. FHFA also continues to direct the Enterprises to operate in a safe and sound manner consistent with their statutory mission and to foster resilient housing finance markets given prevailing housing market conditions, which include elevated demand relative to available inventory.

The housing market contracted in 2022 as higher interest rates combined with high house prices reduced housing affordability. Refinancing activity was most affected by higher mortgage rates, but purchase activity was also diminished from recent years. Throughout FY 2023, mortgage rates continued to rise and house prices did not decline, keeping housing market activity depressed and negatively impacting housing affordability. Despite the higher interest rates since 2022, home prices remained strong in most areas due to a shortage of available housing supply. These market conditions had a significant effect on the Enterprises' net interest income, as lower refinance volume resulted in lower amortization income at the same time as lower new originations reduced net interest income from their guarantee books of business. Table 6 shows the recent performance of the two Enterprises.

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

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

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

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

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

Table 6: Enterprise Financial Results Summary of First 3 Quarters of 2023 and Full Year 2022
(dollars in billions)

	Fannie Mae				Freddie Mac			
	2023			2022 Annual	2023			2022 Annual
	Q1	**Q2**	**Q3**		**Q1**	**Q2**	**Q3**	
Net Income (Loss)	3.8	5.0	4.7	12.9	3.8	5.0	2.7	12.9
Comprehensive Income (Loss)*	3.8	5.0	4.7	12.9	3.8	5.0	2.7	12.9

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

The Enterprises' portfolios of seriously delinquent (SDQ) single-family loans, defined as loans that are more than 90 days overdue, decreased in FY 2023 as more borrowers exited forbearance. As of September 30, 2023, the single-family SDQ rates were slightly lower than pre-COVID levels at 0.54 percent and 0.55 percent for Fannie Mae and Freddie Mac, respectively. By comparison, on September 30, 2022, the single-family SDQ rates were 0.69 percent and 0.67 percent, respectively. FHFA continues to monitor the effects of COVID-19 on the Enterprises and their related risk management practices to ensure identification, monitoring, and management of credit risks.

The Enterprises have two primary sources of revenue: 1) guarantee fees on mortgages held by consolidated trusts holding Enterprise MBS, and 2) the difference between the interest income earned on the assets in the Enterprises' retained mortgage portfolios and the interest expense paid on the debt that funds those assets. In FHFA's FY 2023, as in prior years, the Enterprises earned the majority of their net income from guarantee fees rather than from other sources of net interest income. This is primarily driven by the reduction in the size of the retained portfolios in accordance with the requirements of the PSPAs between Treasury and the Enterprises.

The Enterprises have met conservatorship objectives by reducing the size of their retained portfolios and engaging in Credit Risk Transfer (CRT) transactions. The terms of the PSPAs require the Enterprises to reduce the size of their retained mortgage portfolios, which reduces their interest rate risk. Also, as conservator, FHFA has required the Enterprises to conduct CRT transactions that reduce risk to taxpayers by sharing credit risk with the private sector.

The Enterprises' earnings continue to be highly sensitive to fluctuations in macroeconomic conditions, housing prices, and interest rates. For example, given the large size of the Enterprises' guarantee portfolios, small changes in home prices may have a significant impact on financial performance through changes to loan loss reserves. To reduce the impact of interest rate fluctuations and mitigate the volatility in their financial results, Freddie Mac and Fannie Mae implemented hedge accounting in 2017 and 2021, respectively.

FINANCIAL CONDITION OF THE FHLBANKS

The financial condition and performance of the FHLBanks was sound during the 12-month period ending September 30, 2023. All 11 FHLBanks were profitable, with a combined net income of $6.2 billion on $8.4 billion of net interest income after provision for credit losses, with improved performance from the $2.5 billion and $4.3 billion earned, in the prior 12-month period. The FHLBanks recaptured $37 million of losses through interest income previously taken as credit other-than-temporary impairments. Operating expenses totaled $1.4 billion for the 12-month period that ended September 30, 2023. FHLBank advances increased by $171.9 billion over the past 12 months, resulting in $826.9 billion of advances outstanding on September 30, 2023. Advances represented 63.1 percent of total FHLBank System assets. The balance of mortgages purchased from FHLBank members was $59.8 billion, or 4.6 percent of total FHLBank System assets.

During the 12-month period ending September 30, 2023, the FHLBanks purchased $9.0 billion of mortgages and collected principal payments of $5.1 billion. The FHLBanks' remaining assets were primarily investments, which include liquidity assets, MBS, and other investments. Investments totaled $413.3 billion and represented 31.6 percent of FHLBank System assets. Of the total investments, MBS were $169.5 billion and most of the MBS portfolio was agency MBS ($153.7 billion or 90.7 percent), with only $1.4 billion (0.8 percent) of private-label MBS. Aggregate consolidated obligations, which is the debt issued jointly and used by each FHLBank to fund its operations, totaled $1.2 trillion as of September 30, 2023, of which 25.2 percent were discount notes. Consolidated obligations with a remaining contractual maturity of less than one year by par value represented 70.7 percent of total consolidated obligations. Table 7 provides a summary of the FHLBanks' financial results through September 30, 2023.

Table 7: FHLBanks' Financial Results Summary of First 3 Calendar Quarters of 2023 and Full Calendar Year 2022
(in $ millions)

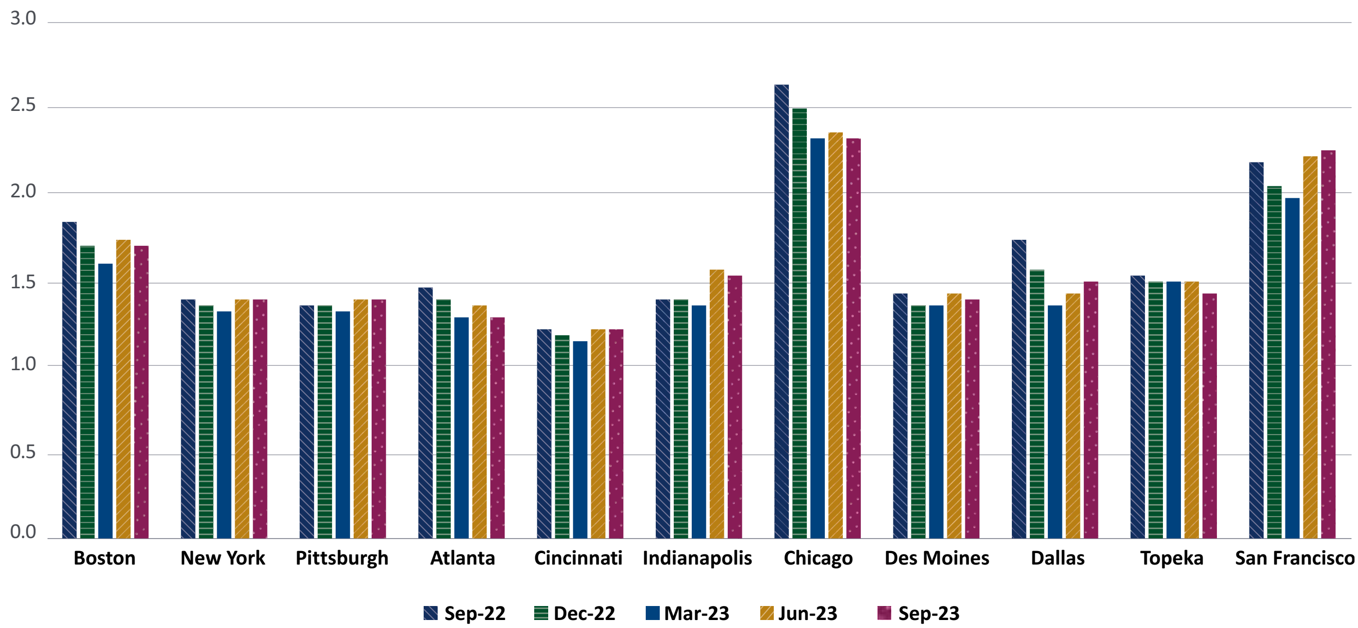
	Net Income (Loss)*			
	2023			2021 Annual
	Q1	Q2	Q3	
FHLBank of Boston	57	79	70	184
FHLBank of New York	199	216	182	417
FHLBank of Pittsburgh	123	176	156	227
FHLBank of Atlanta	123	174	179	184
FHLBank of Cincinnati	127	218	170	252
FHLBank of Indianapolis	92	91	91	177
FHLBank of Chicago	143	167	183	415
FHLBank of Des Moines	191	250	265	430
FHLBank of Dallas	175	240	248	317
FHLBank of Topeka	85	106	92	241
FHLBank of San Francisco	195	121	103	323
FHLBank System Total Net Income	**1,510**	**1,836**	**1,738**	**3,168**

** Numbers may not add due to rounding.*

PERFORMANCE MEASURE 1.1.3:
Ensure a quarterly Market Value of Equity to par value of capital stock ratio greater than or equal to one for each FHLBank

The Market Value of Equity (MVE) to par value of capital stock (PVCS) ratio is an indicator of each FHLBank's condition. A ratio of one or above is desirable because it reflects an FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. FHFA uses FHLBank reporting by way of the Call Report System to verify that the MVE-to-par ratio is greater than or equal to one at each FHLBank at quarter end. For each quarter during FY 2023, each FHLBank reported market value information to FHFA for the preceding quarter. All FHLBanks reported MVE greater than the PVCS. The below graph reports MVE to PVCS ratios for all FHLBanks as of September 30, 2023.

Figure 10: Quarterly MVE to PVCS Ratios



PERFORMANCE MEASURE 1.1.4:
Ensure each FHLBank is adequately capitalized on a quarterly basis

Capital adequacy is a critical component of safe and sound FHLBanks. FHFA determines the capital classification for each FHLBank for the prior quarter and communicates it to the Bank. These communications are made via letter and were in accordance with Subpart A of Part 1229 of FHFA's rule, "Capital Classifications and Prompt Corrective Action." In each quarter of 2023, FHFA deemed all FHLBanks "adequately capitalized" for the prior quarter and communicated these classifications to the FHLBanks via letter.

PERFORMANCE MEASURE 1.1.5:
Conduct quarterly reviews of regulated entity public filings

The measure ensures oversight of the public financial statements released by the regulated entities. For the Enterprises, FHFA review must be completed prior to filing with the SEC. Through the supervisory process and through the financial statement acknowledgement process, FHFA, as regulator and as conservator, conducts oversight of the information released by its regulated entities, which informs decisions by a wide range of government and non-government stakeholders and market participants. For the FHLBanks, FHFA as regulator reviews the individual bank filings, and FHFA conducts oversight of combined financial reports for the System. In FY 2023, FHFA documented reviews of (i) Enterprise financial statements prior to each quarterly and year-end SEC filing, and (ii) FHLBank financial statements prior to conclusion of annual examination fieldwork for each FHLBank.

PERFORMANCE MEASURE 1.1.6A: Approve Diversity and Inclusion reports of examination by April 15 for the Enterprises and Common Securitization Solutions

This measure reports progress towards meeting FHFA's requirement to issue D&I ROEs to the Enterprises and CSS. FHFA completed the 2022 examinations of Fannie Mae, Freddie Mac, and CSS and issued the ROEs to each entity by April 15, 2023.

PERFORMANCE MEASURE 1.1.6B: Approve Diversity and Inclusion reports of examination for at least four of the FHLBank System regulated entities

This measure reports progress towards meeting FHFA's requirement to issue D&I ROEs to the FHLBanks. These reports demonstrate the Agency's commitment to its mission to promote financial inclusion and economic opportunity by ensuring regulated entity compliance. In FY 2023, FHFA approved D&I ROEs for four of the FHLBank System regulated entities by September 30, 2023.

STRATEGIC OBJECTIVE 1.2: REQUIRE TIMELY REMEDIATION OF MATTERS REQUIRING ATTENTION

FHFA continues to identify, communicate, monitor, and assess the status of matters requiring attention at the regulated entities to ensure timely remediation. In FY 2023, FHFA monitored three measures for Strategic Objective 1.2 and met the targets for all three of these measures. The table below reports progress on these measures.

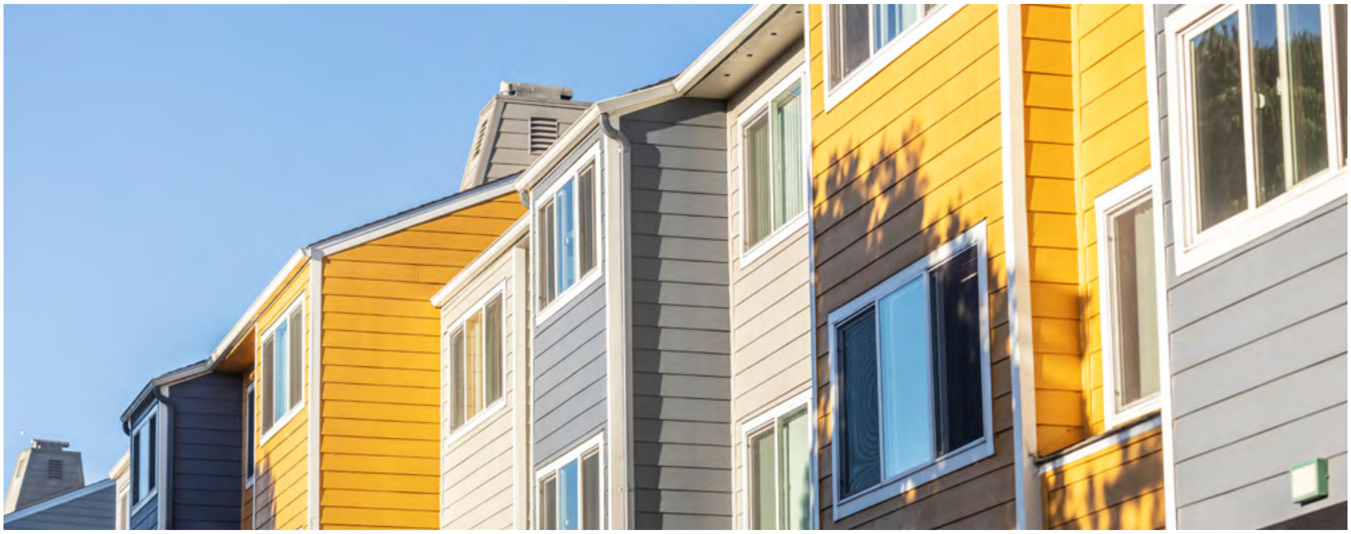
Table 8: Strategic Objective 1.2 – Summary of Performance Measures and Results

Strategic Objective 1.2: Require timely remediation of matters requiring attention							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
1.2.1a: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	NOT MET	MET	MET	MET	MET	90 percent of the time	MET
1.2.1b: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	MET	MET	MET	MET	MET	90 percent of the time	MET
1.2.2: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon timeframes	N/A	N/A	N/A	MET	MET	90 percent of the time	MET

PERFORMANCE MEASURE 1.2.1A: Determine that the Enterprises have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes

PERFORMANCE MEASURE 1.2.1B: Determine that the FHLBanks and OF have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes

Where there is a significant supervisory concern or violation of law or regulation by one of the regulated entities, FHFA may issue an MRA that requires the entity's board of directors and/or management take corrective action to address deficiencies and violations. FHFA tracks the remediation of MRAs to ensure that the regulated entity has addressed the supervisory concern or violation of law or regulation. The FY 2023 target for Performance Measure 1.2.1 for both the Enterprises and the FHLBanks was for FHFA to determine that the regulated entities have satisfactorily addressed safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes 90 percent of the time.



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

- **The Enterprises:** The Enterprises address MRAs by implementing corrective action by the FHFA-communicated remediation completion date. For all MRAs scheduled to be remediated during the fiscal year, FHFA will determine whether the Enterprise has satisfactorily addressed the MRA in accordance with agreed upon remediation plans and timeframes. In FY 2023, the Enterprises satisfactorily addressed more than 90 percent of their safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes.
- **FHLBanks and OF:** For each FHLBank and for OF, FHFA reviews satisfactory resolution of MRAs in conjunction with FHFA's annual examination cycle. FHFA gathers information about MRA resolution in the course of annual exam work and determines whether the Bank or OF addressed MRAs outstanding prior to the examination within agreed upon timeframes or if it is sufficiently on track to address them within the established remediation plan. At FHLBank and OF examinations conducted during FY 2023, FHFA followed up on outstanding MRAs to determine whether the entities had remediated them or if they were making progress according to their remediation plans. During the year, FHFA found that the FHLBanks and OF satisfactorily addressed more than 90 percent of their MRAs.

PERFORMANCE MEASURE 1.2.2: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed upon timeframes

The regulated entities are evaluated by FHFA to ensure compliance with statutory and regulatory requirements for advancing diversity and ensuring inclusion in all their business activities. The D&I examination module establishes how FHFA examines the regulated entities' compliance with Section 1116 of HERA and FHFA regulations at 12 CFR 1223. The target for this performance measure is a 90 percent success rate for MRAs reviewed during the year. In FY 2023, the FHLBanks, OF, Fannie Mae, Freddie Mac, and CSS satisfactorily addressed more than 90 percent of their safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes.

STRATEGIC OBJECTIVE 1.3: PRESERVE AND CONSERVE ENTERPRISE ASSETS WHILE MANAGING THE CONSERVATORSHIPS

FHFA continues to focus on managing the ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, as well as reducing taxpayer risk from Enterprise operations. In FY 2023, FHFA monitored two performance measures for Strategic Objective 1.3 and met the target for one of these measures. The table below reports progress on these measures.

Table 9: Strategic Objective 1.3 – Summary of Performance Measures and Results

Strategic Objective 1.3: Preserve and conserve Enterprise assets while managing the conservatorships							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
1.3.1: Provide decision to Enterprises regarding completeness of resolution plan submissions in conjunction with readiness activities	N/A[24]	N/A	N/A	N/A	N/A	July 31, 2023	NOT MET
1.3.2: Monitor and rate the Enterprises' performance against current Scorecard objectives	N/A	N/A	N/A	N/A	N/A	Complete quarterly assessment within 30 days of quarter end (within 60 days for year-end assessment	MET

PERFORMANCE MEASURE 1.3.1: Provide decision to Enterprises regarding completeness of resolution plan submissions in conjunction with readiness activities

FHFA published a final rule on May 4, 2021, which required the Enterprises to develop plans to facilitate their rapid and orderly resolution in the event that FHFA is appointed receiver. This measure tracks compliance with the rule by requiring FHFA to complete and communicate its completeness review of the Enterprise resolution plans by June 31, 2023. The target for this measure was not met. The plans are currently under Agency review.

PERFORMANCE MEASURE 1.3.2: Monitor and rate the Enterprises' performance against current Scorecard objectives

Each quarter, FHFA evaluated the Enterprises' progress against the goals contained in the annual conservatorship scorecard within 30 days of the end of each quarter (within 60 days for year-end assessment). Results of this evaluation were approved by the Director and communicated to the Enterprises.

[24] "N/A" or "not available" means that FHFA did not report data in prior PARs for the marked measures.

STRATEGIC OBJECTIVE 1.4: IDENTIFY OPTIONS FOR INCORPORATING CLIMATE CHANGE INTO REGULATED ENTITY GOVERNANCE

In FY 2023, FHFA monitored one performance measures for Strategic Objective 1.4 and met the target for this measure. The table below reports progress on these measures.

Table 10: Strategic Objective 1.4 – Summary of Performance Measures and Results

Strategic Objective 1.3: Identify options for incorporating climate change into regulated entity governance							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
1.4.1: Continue to develop the Enterprises' and FHFA's climate research agendas	N/A	N/A	N/A	N/A	N/A	Q4 FY 2023	MET

PERFORMANCE MEASURE 1.4.1:
Continue to develop the Enterprises' and FHFA's climate research agendas

The Enterprises have made progress on their 2023 research agendas, including newly initiated research projects for 2023 and continuing projects from 2022. Both Enterprises provided FHFA with regular updates on progress made on research projects as well as progress made in addressing climate-related data gaps. FHFA has similarly made progress on internal research projects on the Agency's climate research agenda. For example, FHFA published a literature review of research on climate change and mortgage finance in August 2023.[25] FHFA staff presented their research projects, such as the effects of hurricanes on public transportation and house prices, and house prices following natural disasters, during FY 2023 at academic conferences.

[25] https://www.fhfa.gov/PolicyProgramsResearch/Research/Pages/wp2305.aspx.

STRATEGIC GOAL 2: FOSTER HOUSING FINANCE MARKETS THAT PROMOTE EQUITABLE ACCESS TO AFFORDABLE AND SUSTAINABLE HOUSING

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

STRATEGIC GOAL 2 – SELECTED ACCOMPLISHMENTS

FHFA achieved several accomplishments in FY 2023 that contributed to progress toward the strategic goal.

FHLBank System at 100: Focusing on the Future

In August 2022, FHFA announced the launch of a comprehensive review of the FHLBank System. The purpose of the *FHLBank System at 100: Focusing on the Future* initiative was to ensure the FHLBanks remain positioned to meet the needs of their members and the communities they serve. FHFA launched the initiative with a public listening session, followed by regional roundtable discussions covering a variety of topics, including issues of local importance as well as more foundational questions about the FHLBank System's mission, purpose, and organization. FHFA also held a wrap-up public listening session and accepted written comments during the public input phases. Together, nearly 800 stakeholders shared their thoughts on the FHLBank System.

FHFA drew on the feedback received through this public engagement along with its own extensive analysis when preparing a report, published in November 2023, which includes recommendations for how the FHLBank System could effectively fulfill its mission. FHFA has begun to address the actions in the report and will continue to do so in FY 2024 and beyond.[26]

Financial Technology (Fintech) Outreach and Engagement

In FY 2023, FHFA engaged with market participants, nonprofits, consumer groups, and academia to facilitate the sharing of best practices and establish an ongoing dialogue on the role of financial technology and innovation in housing finance. FHFA's Office of Financial Technology analyzed public input on this topic received in response to a Request for Information (RFI) issued in July 2022 and from a listening session held in October 2022. The Agency published a public summary of the RFI responses and themes in March 2023.

In July 2023, FHFA hosted an inaugural TechSprint, a team based, in-person problem-solving event. The Velocity TechSprint[27] brought together experts and practitioners from the technology and mortgage finance sectors to propose solutions for reducing mortgage costs and delivery times while creating a more inclusive and transparent process. The Velocity TechSprint culminated in a Demo Day where each team presented their ideas to a panel of judges drawn from subject matter experts in industry, the nonprofit sector, and government. The Velocity TechSprint also featured in-person and virtual panels with experts from industry, academia, the nonprofit sector, and the regulatory community.

26 The report is available on FHFA's website, at **https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/FHLBank-Focusing-on-the-Future.aspx**.

27 *See* the Velocity TechSprint webpage at **https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Fintech-Velocity-Tech-Sprint.aspx**.

Updates to Enterprise Credit Score Requirements

Since 2014, FHFA has been exploring updates to the Enterprises' credit score requirements, culminating in an Agency decision in October 2022 to validate and approve the FICO 10T and VantageScore 4.0 credit score models for use by the Enterprises, as well as to require the use of a minimum of two, rather than three, credit reports for each borrower from the national consumer reporting agencies on loans acquired by the Enterprises. The Agency expects these changes will result in more accurate and inclusive credit scores and increased competition in the market, which in turn should promote sustainable access to affordable mortgage credit for consumers.

To ensure smooth implementation of these updated requirements, FHFA and the Enterprises have undertaken extensive stakeholder engagement. In March 2023, FHFA announced a public engagement process and issued a proposed implementation timeline. FHFA sought to better understand stakeholder needs for data, education, technology, and guidance, while providing further clarity on the next steps in the initiative. In September 2023, FHFA expanded upon this public engagement process by announcing a series of stakeholder forums and listening sessions on the updated Enterprise credit score requirements. These forums will allow discussion of a wide variety of issues, opportunities, and challenges related to implementation of the new requirements.

During FY 2023, the Enterprises published a "partner playbook" with information on timelines and resources, including frequently asked questions and answers, as well as training opportunities. After the initial publication, the Enterprises updated the playbook and will continue to provide at least quarterly updates. They have also held industry education webinars, conducted approximately 100 targeted outreach meetings, received almost 1,000 survey responses, and participated in panel sessions and meetings at various industry events. FHFA and the Enterprises will continue robust engagement with stakeholders to support a smooth implementation as the initiative moves forward.

CREDIT SCORE MODELS

Credit score models are statistical tools or algorithms used to produce a numerical value or categorization to predict the likelihood of certain credit behaviors. Credit score models are used in many types of consumer credit decisions, including mortgages. These models typically consider various factors when calculating credit scores, such as an individual's payment history, outstanding debts, length of credit history, types of credit accounts, and recent credit inquiries. The goal is to provide a numerical representation of an individual's credit risk, typically expressed as a credit score. Today, the Enterprises use credit scores to establish minimum credit thresholds for mortgage loans they acquire, provide a foundation for risk-based pricing, and support their public financial statements and disclosures.

Implemented Multifamily Radon Testing Standards

In January 2023, FHFA instructed the Enterprises to adopt more stringent radon standards for multifamily properties with mortgage loans backed by the Enterprises. The Enterprises' aligned radon standards require additional radon testing for multifamily properties with loan applications received after June 30, 2023. Enhancements to the radon standards require testing at Enterprise-backed multifamily properties, regardless of where the property is located (subject to some exceptions and deferrals), in addition to:

- Increasing the amount of required testing from 10 percent of ground floor units to 25 percent of ground floor units,
- Requiring an environmental professional to oversee radon testing,
- Requiring the environmental professional or property representative to notify tenants of radon testing, and
- Providing additional guidance for lenders and environmental consultants on the Enterprises' radon standards. As part of this guidance, the Enterprises will reinforce the need for compliance with state and local radon laws.

The new radon testing requirements and standards represent a robust improvement over the Enterprises' prior policies. In FY 2024, FHFA will continue to work closely with the Enterprises, industry participants, and the public to ensure the successful implementation of the standards. Furthermore, FHFA partnered with the Centers for Disease Control and Prevention to identify opportunities and challenges in collecting radon data at multifamily properties with Enterprise-backed mortgages. Data collection efforts will help better inform industry and other stakeholders on radon issues moving forward.

Engaged the Public on Multifamily Tenant Protections

In January 2023, FHFA released a statement that, as part of the Administration's *Blueprint for a Renters Bill of Rights*, the Agency will conduct a public process to identify tangible solutions for addressing the challenges faced by renters nationwide, focusing on properties with mortgage loans backed by the Enterprises. This year, FHFA has led a transparent stakeholder engagement process to explore the Enterprises' role in protecting the nation's tenants, including policies that limit excessive rent increases at Enterprise-backed properties.

In May 2023, FHFA issued an RFI to solicit feedback from a diverse set of viewpoints on issues related to multifamily tenant protections. Additionally, the RFI asked stakeholders to identify opportunities for the industry to improve data collection to better quantify the size and scope of tenant protections nationwide. FHFA also instructed the Enterprises to explore the feasibility of expanding multifamily tenant protections for properties they finance and to identify strategies and activities that could facilitate a greater amount of affordable rental housing supply.

The feedback that FHFA receives from the RFI and the Enterprises will be analyzed and used to inform future decision making. The Agency's decision to evaluate the Enterprises' multifamily tenant standards is based on lessons learned from COVID-19, rising rents, and a consensus among stakeholders that the United States lacks sufficient safe and affordable housing.

Promoted Equity in Appraisals

FHFA remains committed to addressing misvaluation in residential property appraisals and advancing valuation equity as an active participant in the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). In February 2023, FHFA worked with other federal regulators to raise concerns about the non-discrimination language contained in the Uniform Standards of Professional Appraisal Practice (USPAP), published by the Appraisal Foundation, through a joint public letter to the Appraisal Foundation. In May 2023, the Appraisal Foundation published a revised USPAP standard that incorporated significant improvements in non-discrimination standards. In May 2023, FHFA also hosted the second Appraisal Subcommittee hearing on appraisal bias.

In October 2022, FHFA published the Uniform Appraisal Dataset (UAD) Aggregate Statistics Data File, the first comprehensive publicly available data on appraisals. FHFA simultaneously launched the UAD Aggregate Statistics Dashboards on its website to provide user-friendly visualizations of the newly available data. The Agency used appraisal records collected from 2013 through the second quarter of 2022 on Enterprise single-family properties to create a data file of more than

23 million UAD aggregate statistics, in a manner that protects borrower privacy. The UAD Aggregate Statistics Data File and Dashboards give stakeholders and the public new access to a broad set of data points and trends found in appraisal reports. FHFA publishes the UAD Aggregate Statistics quarterly.

In June 2023, FHFA expanded the public UAD Aggregate Statistics with new statistics and property characteristics. The new information includes comparable property statistics and structural, lot, and neighborhood characteristics for the subject property. FHFA also added two new user-friendly dashboards that present census tract data and appraisal gap statistics. The Agency plans to continue to take action to address issues of misvaluation and advance valuation equity.

INTERAGENCY TASK FORCE ON PROPERTY APPRAISAL AND VALUATION EQUITY

PAVE is composed of thirteen federal agencies and offices and is co-led by the U.S. Department of Housing and Urban Development and the Domestic Policy Council. The task force is dedicated to ending bias in home valuation. On March 23, 2022, PAVE released the Action Plan to Advance Property Appraisal and Valuation Equity, which outlines the historical role of racism in the valuation of residential property, examines the various forms of bias that can appear in residential property valuation practices, and describes how government and industry stakeholders will advance equity through actions and recommendations.

Rulemaking on Fair Lending Oversight and Equitable Housing Finance Plans

In April 2023, FHFA published a proposed rule that addresses barriers to sustainable housing opportunities for underserved communities by codifying existing FHFA practices in regulation and adding new requirements related to fair lending, fair housing, and Equitable Housing Finance Plans. The proposed rule would improve FHFA's and the regulated entities' fulfillment of their statutory purposes. FHFA expects this rulemaking to provide increased public transparency and greater oversight and accountability of the regulated entities' fair housing and fair lending compliance. The comment period for the proposed rule closed on June 26, 2023. FHFA received over a hundred comment letters from individuals, think tanks, trade organizations, advocacy groups, and the Enterprises. The Agency is currently reviewing the feedback.

Enhancement of Payment Deferral

In March 2023, FHFA announced the Enterprises would enhance their payment deferral policies to allow borrowers facing a financial hardship to defer up to six months of mortgage payments as part of the standard loss mitigation toolkit. This enhancement was based on the success of the COVID-19 payment deferral offering. Payment deferral is a key part of the loss mitigation toolkit that allows borrowers who are able to resolve a financial hardship to keep the same monthly mortgage payment by moving past due amounts to the end of the loan as a non-interest-bearing balance, due and payable at maturity, sale, refinance, or payoff. Servicers were required to implement the enhanced payment deferral by October 1, 2023.

Single-Family Pricing Framework

In May 2023, FHFA issued an RFI on the Enterprises' single-family pricing framework. The RFI solicited public feedback on the goals and policy priorities that FHFA should pursue in its oversight of the pricing framework. The RFI also sought input on the process for setting the Enterprises' single-family upfront guarantee fees, including whether it is appropriate to continue to link upfront guarantee fees to the ERCF, a set of capital requirements established by FHFA through notice and comment rulemaking in 2020.

The RFI will help FHFA build on the significant updates to the pricing framework that have been made since the beginning of 2022 in a manner that is transparent and considers views from a diverse set of stakeholders and market participants. Through the RFI, FHFA sought input on how to ensure the pricing framework adequately protects the Enterprises and taxpayers against potential future losses; supports affordable, sustainable housing and first-time homebuyers; and fosters liquidity in the secondary mortgage market. FHFA is currently reviewing the feedback received.

STRATEGIC OBJECTIVE 2.1: PROMOTE SUSTAINABLE ACCESS TO MORTGAGE CREDIT

FHFA is responsible for promoting sustainable access to mortgage credit, and the Agency evaluates policies and takes appropriate actions to promote this objective. As both regulator and conservator, FHFA requires the Enterprises, where feasible, to identify specific actions to increase and preserve sustainable mortgage purchase and refinance credit for all qualified borrowers, with additional focus on low- and moderate-income families, communities of color, rural areas, and other underserved populations. In FY 2023, FHFA monitored two performance measures for Strategic Objective 2.1 and met the targets for both of these measures. The table below reports progress on these measures.

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

Strategic Objective 2.1: Promote sustainable access to mortgage credit							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
2.1.1: Issue annual ratings for each Enterprise's Duty to Serve performance in 2022	N/A	N/A	N/A	MET	MET	Q1 FY 2023	MET
2.1.2: Publish final Enterprise multifamily housing goals rule for 2023-24	N/A	N/A	N/A	NOT MET	MET	Q1 FY 2023	MET

PERFORMANCE MEASURE 2.1.1: Issue annual ratings for each Enterprise's Duty to Serve performance in 2022

The Enterprises have important roles in supporting access to mortgage credit for very low-, low-, and moderate-income families, as well as those in underserved areas. 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 housing.

Under FHFA's regulation, each Enterprise submits a Duty to Serve (DTS) Underserved Markets Plan to FHFA for review and nonobjection. The plan covers a three-year period and describes the activities and objectives the Enterprise will carry out in each underserved market to meet its DTS obligations. While the plans cover three years, FHFA is required by statute to evaluate and rate the Enterprises' DTS performance under the plans each CY. In October 2022, FHFA issued its annual evaluations for each Enterprise's 2021 DTS performance as part of FHFA's Annual Housing Report.

PERFORMANCE MEASURE 2.1.2: Publish final Enterprise multifamily housing goals rule for 2023-24

The Enterprises have important roles in supporting access to mortgage credit for low- and moderate-income families. Sections 1331 through 1333 of the Safety and Soundness Act require the Director to establish annual housing goals for mortgage purchases by Fannie Mae and Freddie Mac, covering at most a three-year period. The Enterprise housing goals are based on CY and include separate affordable housing categories for single-family and multifamily mortgages. FHFA issued its Final Multifamily Housing Goals Rule for 2023-2024 on December 23, 2022.

STRATEGIC OBJECTIVE 2.2: ADVANCE EQUITY IN HOUSING FINANCE, INCLUDING THROUGH COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

FHFA works with the Enterprises to develop and monitor programs that expand access to housing finance to all qualified financial institutions and qualified borrowers. FHFA also oversees the FHLBanks' affordable housing and community investment activities. In FY 2023, FHFA monitored two performance measures for Strategic Objective 2.2 and met both of the targets for these measures. The table below reports progress on these measures.

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

Strategic Objective 2.2: Advance equity in housing finance, including through compliance with fair lending laws and regulations							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
2.2.1: Issue an FHFA Enterprise Fair Lending Rating System	N/A	N/A	N/A	N/A	N/A	Q4 FY 2023	MET
2.2.2: Ensure Enterprises' updated Equitable Housing Finance Plans are published	N/A	N/A	N/A	N/A	MET	Q3 FY 2023	MET

PERFORMANCE MEASURE 2.2.1:
Issue an FHFA Enterprise Fair Lending Rating System

FHFA's fair lending supervisory program seeks to ensure that all Americans, especially those in underserved communities, have access to a fair and sustainable housing finance system by assessing the Enterprises' compliance with fair lending laws. The FHFA Enterprise Fair Lending Rating System provides a means to clearly communicate FHFA's supervisory view of an Enterprise's fair lending program, including the Enterprise's compliance management system for fair lending laws and regulations. An FHFA Enterprise Fair Lending Rating System was developed and approved by the Division of Housing Mission and Goals Deputy Director in FY 2023.

PERFORMANCE MEASURE 2.2.2:
Ensure Enterprises' updated Equitable Housing Finance Plans are published

In September 2021, FHFA instructed Fannie Mae and Freddie Mac to develop Equitable Housing Finance Plans that identify and address barriers to sustainable housing opportunities and include the Enterprises' goals and action plans to advance equity in housing finance for the next three years. In June 2022, FHFA announced the release of the Enterprises' Equitable Housing Finance Plans for 2022-2024.

FHFA instructed the Enterprises to submit annual updates to the Plans for review. In April 2023, Fannie Mae and Freddie Mac refreshed their 2022-2024 Equitable Housing Finance Plans with updates to the previous year's strategies and added new strategies for 2023. The Enterprises also issued Performance Reports that outlined their progress during 2022 and actions they are taking to advance equity in their automated underwriting systems.

STRATEGIC OBJECTIVE 2.3: SERVE AS A RELIABLE SOURCE OF INFORMATION AND ANALYSIS ON THE STATE OF HOUSING FINANCE MARKETS AND RELATED ISSUES

In FY 2023, FHFA continued to conduct research, collect and analyze data, and publish important information on housing market conditions. This informs policy decisions and the public and promotes market efficiency and stability. Selected examples include:

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

In FY 2023, FHFA monitored four measures for Strategic Objective 2.3 and met all four of the targets for these measures. The table below reports progress on these measures.

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

Strategic Objective 2.3: Serve as a reliable source of information and analysis on the state of housing finance markets and related issues

Performance Measure	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 Target	FY 2023 Result
2.3.1: Publish FHFA House Price Indexes	MET	MET	MET	MET	MET	12 monthly and 4 quarterly	MET
2.3.2: Publish annual Public Use Database	N/A	N/A	N/A	NOT MET	MET	September 2023	MET
2.3.3: Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database	N/A	N/A	N/A	MET	MET	One per quarter	MET
2.3.4: Publish annual guarantee fee report	N/A	N/A	N/A	MET	MET	December 2022	MET

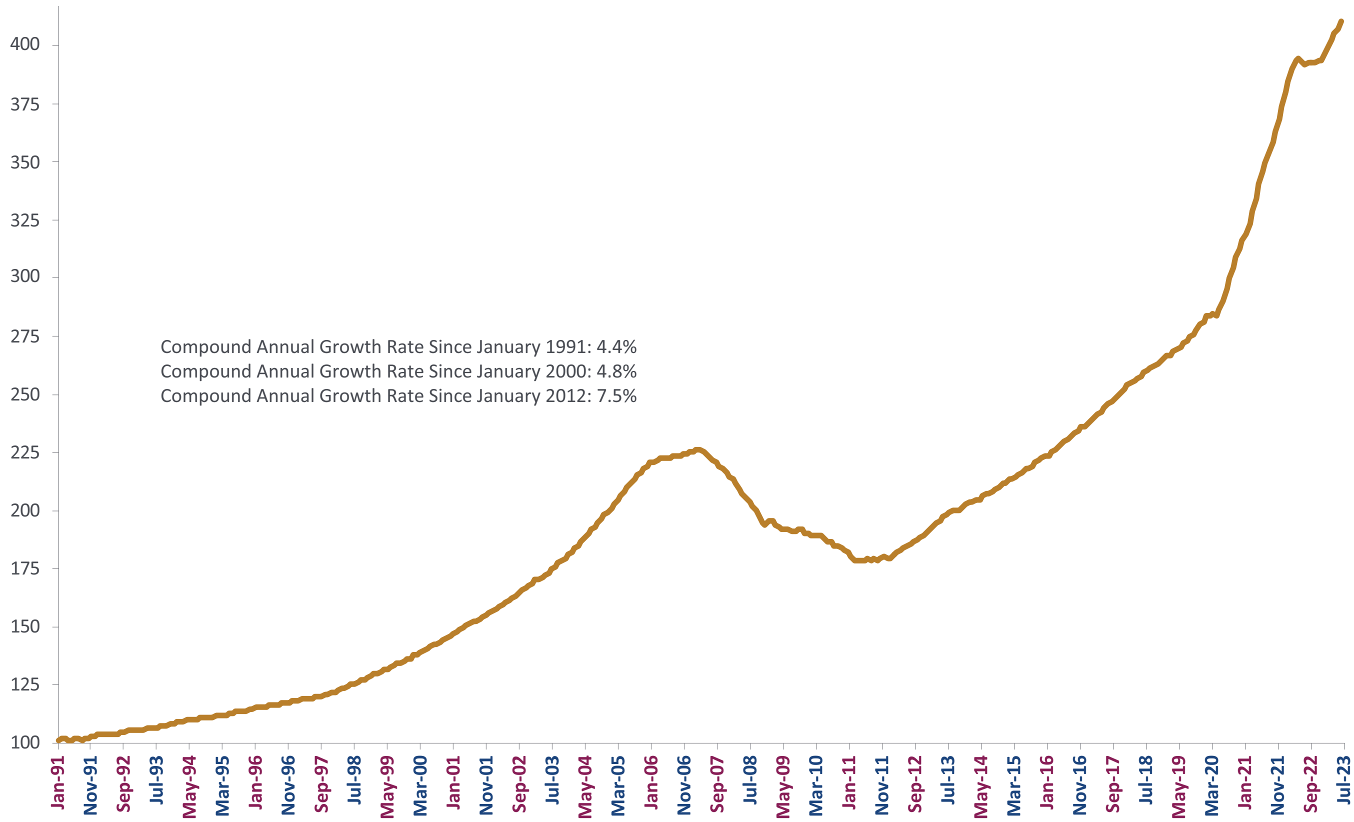
PERFORMANCE MEASURE 2.3.1: Publish FHFA House Price Indexes

The statutorily required monthly FHFA HPI is a broad measure of the movement of single-family house prices, calculated using home sales price information for mortgages sold to, or guaranteed by, the Enterprises. The FHFA HPI serves as a timely, accurate indicator of house price trends at various geographic levels. In FY 2023, FHFA successfully published 12 monthly and four quarterly FHFA HPI releases. Figure 11 shows the FHFA HPI from 1991 to July 2023 as released in September 2023.[28]

[28] FHFA HPI data are available at **https://www.fhfa.gov/HPI**.

Figure 11: Monthly House Price Index from January 1991 – Present

Purchase-Only FHFA HPI® (Seasonally Adjusted, Nominal)



Source: FHFA

HOUSE PRICE INDEX

The FHFA HPI is a broad economic measure of the movement of single-family house prices in the United States. FHFA constructs several indexes for different market geographies and periods, and often references the entire suite of indexes as the "FHFA HPI." The FHFA HPI is the purchase-only (PO) index that uses seasonally adjusted, PO data—it is the data most commonly referenced in press releases, news stories, and social media. FHFA created additional indexes to address questions about house price changes in other market segments such as the all-transactions index, which includes refinance data, or the expanded PO index, which includes purchase data on the entire single-family property market.

The FHFA HPI measures average price changes in sales or refinancings on the same properties. FHFA obtains this information by reviewing transactions on single-family properties with mortgages purchased or securitized by Fannie Mae, Freddie Mac, and other sources. FHFA updates the FHFA HPI monthly and quarterly. The new mortgage acquisitions are used to identify repeat transactions for the most recent period and each subsequent period since 1975.

The FHFA HPI provides housing economists with input data that is useful for estimating changes in the rates of mortgage defaults, prepayments, and housing affordability in specific geographic areas.

PERFORMANCE MEASURE 2.3.2:
Publish annual Public Use Database

The Enterprise Public Use Database (PUDB) is released annually by FHFA as required by 12 U.S.C. § 4543(d). It provides loan and unit information for single-family and multifamily mortgages acquired by Fannie Mae and Freddie Mac in the prior CY. The data provide the public with a deeper understanding of housing and mortgage markets. The PUDB single-family dataset includes detailed information such as the income, race, and gender of the borrower as well as the census tract location of the property, loan-to-value ratio, age of mortgage note, and affordability of the mortgage. The PUDB multifamily property-level dataset includes information on the size of the property, unpaid principal balance, and type of seller/servicer from which the Enterprise acquired the mortgage. The multifamily unit-class file also includes information on the number and affordability of the units in the property. Both the single-family and multifamily data include indicators of whether the purchases are from "underserved" census tracts, as defined in terms of median income and minority percentage of population. The 2022 PUDB data sets were released in September 2023.

PERFORMANCE MEASURE 2.3.3:
Publish quarterly aggregate statistics on mortgage profiles and delinquencies from National Mortgage Database

The NMDB is a nationally representative 5 percent sample of residential mortgages in the United States. Publication of aggregate data from NMDB is a step toward implementing the statutory requirements of section 1324(c) of the Safety and Soundness Act, as amended by HERA. The statute requires FHFA to conduct a monthly mortgage market survey to collect data on the characteristics of individual mortgages, both Enterprise and non-Enterprise, and to make the data available to the public while ensuring that the data are not released in an identifiable form in order to protect the privacy of borrowers. The data help FHFA gain a better understanding of housing and mortgage markets. The purpose of NMDB is to inform and educate FHFA, CFPB, and other federal agencies about lending products and mortgage market health. The database is comprehensive, and there are many possibilities for how it may be used, including:

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

In FY 2023, NMDB aggregate statistics were published quarterly.[29]

PERFORMANCE MEASURE 2.3.4:
Publish annual Guarantee Fee Report

HERA requires FHFA to conduct an ongoing study of the guarantee fees charged by the Enterprises and to submit a report to Congress each year. Guarantee fees are intended to cover the credit risk and other costs that Fannie Mae and Freddie Mac incur when they acquire single-family loans from lenders. These include projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. The 2022 report compares year-over-year 2021 to 2020 and 2019. The report "Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2021" was published December 21, 2022.

[29] These data can be found at **https://www.fhfa.gov/nmdbdata**.

STRATEGIC OBJECTIVE 2.4: FACILITATE GREATER AVAILABLITY OF AFFORDABLE HOUSING SUPPLY, INCLUDING AFFORDABLE RENTAL HOUSING

FHFA is committed to equitable access to the regulated entities' financial services by qualified institutions and borrowers and to affirmatively furthering fair housing. In FY 2023, FHFA monitored two measures for Strategic Objective 2.4 and met both of the targets for these measures. The table below reports progress on these measures.

Table 14: Strategic Objective 2.4 – Summary of Performance Measures and Results

Strategic Objective 2.4: Facilitate greater availability of affordable housing supply, including affordable rental housing							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
2.4.1: Determine the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard	N/A	N/A	N/A	N/A	N/A	By the end of calendar year 2022, (1) each Enterprise's mission driven business meets or exceeds 50 percent of total multifamily business, and (2) at least 25 percent of each Enterprise's total business is affordable at or below 60 percent of area median income	MET
2.4.2: Determine that Real Estate Owned properties held by the Enterprises are marketed providing an exclusive opportunity for owner-occupants and community-oriented organizations to purchase the property prior to investors	N/A	N/A	N/A	N/A	N/A	More than 90% of vacant properties marketed	MET

PERFORMANCE MEASURE 2.4.1:
Determine the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard[30]

This measure determines if the Enterprises' multifamily loan purchases for the CY met FHFA's mission-driven requirements. The measure helps ensure that the Enterprises purchase a certain amount of mission-driven multifamily loans and meet FHFA's minimum mission driven requirements. In CY 2022, each Enterprise's mission-driven business met or exceeded 50 percent of total multifamily business, and at least 25 percent of each Enterprise's total business was affordable at or below 60 percent of area median income.

[30] The 2022 Conservatorship Scorecard expands the definition of naturally occurring affordable housing to include affordability adjustments in certain markets FHFA designates as cost-burdened to renters and classifies as mission-driven, financing that facilitates energy and water conservation measures for low-income tenants. Other mission-driven business includes loans on manufactured housing, community blanket loans, loans that finance properties in rural markets, loans that finance small multifamily (5-50 unit) properties, loans that finance seniors housing assisted living properties, and loans on properties encumbered by a regulatory agreement or recorded use restriction that restricts the unit rents and the incomes of the tenants occupying the units. The 2022 Conservatorship Scorecard can be found here: **https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/2022-Appendix-A-10132021.pdf**.

PERFORMANCE MEASURE 2.4.2:
Determine that Real Estate Owned properties held by the Enterprises are marketed providing an exclusive opportunity for owner-occupants and community-oriented organizations to purchase the property prior to investors

The measure determines if the Enterprise is disposing of Real Estate Owned (REO) properties in a way that supports homebuyers and affordability. Each Enterprise must be in compliance with FHFA's requirements by the end of CY 2023. The measure focuses the Enterprises on enabling purchases of REO properties, which have a median home price below the national median home price, by owner-occupants to the greatest extent possible, in lieu of investors. This measure ensures that FHFA remains focused on using all aspects of the Enterprises' portfolios to promote affordable housing. For FY 2023, Fannie Mae and Freddie Mac marketed more than 90 percent of vacant properties to owner-occupants.

STRATEGIC OBJECTIVE 2.5: SUPPORT LEVERAGING OF TECHNOLOGY AND DATA TO FURTHER PROMOTE EFFICIENCY AND COST SAVINGS IN MORTGAGE PROCESSES

FHFA continues to research and explore opportunities for further incorporation of financial technology (fintech) in activities of the regulated entities and other mortgage market participants. The Agency is also exploring opportunities to leverage non-traditional data, alternative approaches, and new technology in the mortgage underwriting process. In FY 2023, FHFA monitored one measure for Strategic Objective 2.5 and met the target for this measure. The table below reports progress on this measure.

Table 15: Strategic Objective 2.5 – Summary of Performance Measures and Results

Strategic Objective 2.5: Support leveraging of technology and data to further promote efficiency and cost savings in mortgage processes							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
2.5.1: Complete analysis of input received from the Request for Input on Fintech in Housing Finance issued in FY 2022, capturing an overview of responses received	N/A	N/A	N/A	N/A	N/A	March 31, 2023	MET

PERFORMANCE MEASURE 2.5.1:
Complete analysis of input received from the Request for Input on Fintech in Housing Finance issued in FY 2022, capturing an overview of responses received

In July 2022, FHFA issued an RFI to solicit public input on the role of technology in housing finance, broadly seeking to understand the current landscape of innovation throughout the mortgage lifecycle and related processes, risks, and opportunities. This measure reported FHFA's progress towards completing an analysis of the feedback by March 31, 2023. The analysis summary was published on March 28, 2023.[31]

[31] https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fintech-RFI-Summary_FINAL.pdf.

STRATEGIC GOAL 3: RESPONSIBLY STEWARD FHFA'S INFRASTRUCTURE

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

STRATEGIC GOAL 3 – SELECTED ACCOMPLISHMENTS

FHFA achieved several accomplishments in FY 2023 that contributed to progress in this area. Selected accomplishments for FY 2023 include:

Agency's People Plan

- The FHFA People Plan for Fiscal Years 2023-2026 (People Plan), published in April 2023, provides a holistic, people-centric strategy to equip and empower the FHFA workforce to fulfill the Agency's mission and goals. The People Plan integrates human capital strategy, FHFA's Values-Based Culture Initiative (VBCI) and FAIR values (Fairness, Accountability, Integrity, and Respect), and the Agency's strategic approach to Diversity, Equity, Inclusion, and Accessibility (DEIA). FHFA's People Plan also prepares the Agency to build workforce capacity, develop workforce capability, and cultivate a performance culture. The People Plan serves as the roadmap for how FHFA will evolve the employee experience and further engage the Agency's talented and motivated workforce.

PERFORMANCE CULTURE

In developing a performance culture, the focus is sustaining superior performance through the empowerment and engagement of a high-performing workforce, while establishing and maintaining an inclusive work environment. FHFA's FAIR values and strategic approach to DEIA, along with employing effective performance management, are crucial to this culture. Rooted in shared values, a performance culture builds an environment that rewards superior performance and holds employees accountable based on the quality of their work, not personal attributes.

Risk Management Capabilities

FHFA continues to expand its risk management practices and processes. To identify emerging trends that may prevent FHFA from achieving its strategic goals, the Agency implemented an internal process using the Political, Economic, Social, Technological, Legal, and Environmental strategic framework to assess for risks and opportunities. A new internal controls testing approach also enables continuous testing earlier in the fiscal year, which provides a proactive assessment of FHFA's internal controls and risk mitigation activities. FHFA also implemented a Root Cause Analysis process, instituting a collaborative review to assess internal controls and deficiencies, and to determine corrective actions. In addition, FHFA established the Senior Assessment Team, which is responsible for overseeing the effective execution of internal control governance activities.

Information Technology Security

To address federal cybersecurity mandates, FHFA established an Identity, Credential, and Access Management (ICAM) Steering Committee in FY 2023 to facilitate oversight of FHFA's implementation of ICAM and Zero Trust requirements.

The ICAM Steering Committee will serve as FHFA's governance structure for overseeing FHFA's ICAM Program and related initiatives, such as Zero Trust. Governance for ICAM and Zero Trust implementation will lead to more consistent and efficient implementations and improved cybersecurity across FHFA.

ZERO TRUST

Executive Order (EO) 14028, "*Improving the Nation's Cybersecurity*" directs major advancements in protection and resiliency of federal systems against highly sophisticated cyber threats. The intent is for the Federal Government to improve its capabilities in identifying, deterring, protecting against, detecting, and responding to these threats.

One way to accomplish this goal is through an architectural concept known as Zero Trust. The National Institute of Standards and Technology defines zero trust as: "… a cybersecurity paradigm focused on resource protection and the premise that trust is never granted implicitly but must be continually evaluated." Traditional security models have been built with the notion of implicit trust – that any user or IT resource operating inside the network is considered a trusted entity. Zero trust on the other hand assumes that the user or IT resource is untrusted, regardless of where it resides. In general terms, zero trust implies:

- Never trust and always verify users, resources, applications, and systems;
- Assume a breach has occurred where threat actors are assumed to be present.
- Implement least-privilege access, where users are only provided access to resources and data needed to accomplish the task.

Data Governance

In FY 2023, FHFA formally began monthly meetings of its new Data Governance Committee (DGC). Established as part of the Agency's efforts to comply with the OPEN Government Data Act of 2019, the DGC worked throughout the year to develop new data governance policies and respond to emerging issues.

In FY 2023, the DGC focused on improving FHFA's ability to serve as a reliable source of data on the state of housing finance markets and related issues. The DGC developed two new data governance policies to improve the quality and usability for FHFA's public data resources. First, the DGC developed new machine readability data standards for public data products. These standards implement new and existing federal requirements aimed at making data usable by the public to the greatest extent possible. Second, the DGC developed new procedures for implementing FHFA's Information Quality Guidelines, which help ensure the quality, objectivity, utility, and integrity of information that FHFA disseminates to the public.

The DGC also helped produce FHFA's first Artificial Intelligence (AI) Use Cases Inventory, which helps the federal government identify similar AI use cases across government, so that agencies can share and reuse methodologies, technologies, and best practices.

STRATEGIC OBJECTIVE 3.1: CULTIVATE A HIGH-PERFORMING, DIVERSE, ACCOUNTABLE, AND ENGAGED WORKFORCE

FHFA is dedicated to fostering a high-performing culture that exemplifies the Agency's values and supports its work through effective and efficient management of its resources and infrastructure. FHFA's infrastructure is inclusive of all people, tools, resources, and programs that provide support for its mission. In addition, the Agency integrates DEIA in all employment, management, and business activities at FHFA. In FY 2023, FHFA monitored four measures for Strategic Objective 3.1 and met three of the targets for these measures. The table below reports progress on these measures.

Table 16: Strategic Objective 3.1 – Summary of Performance Measures and Results

Strategic Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
3.1.1: Federal Employee Viewpoint Survey Performance Confidence Index	N/A	N/A	N/A	N/A	N/A	70 percent positive	MET
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index	N/A	N/A	MET	MET	MET	70 percent positive	MET
3.1.3: Improve Time-to-Hire	N/A	N/A	N/A	NOT MET	MET	80 calendar days	NOT MET
3.1.4: Develop FHFA Culture Plan	N/A	N/A	N/A	N/A	N/A	Q1 FY 2023	MET

PERFORMANCE MEASURE 3.1.1: Federal Employee Viewpoint Survey Performance Confidence Index

The Federal Employee Viewpoint Survey (FEVS) is conducted on an annual basis to measure employees' perceptions of many work issues. The results provide federal agency leaders insight into areas where improvements have been made, as well as areas where improvements are needed. The FEVS Confidence Index is designed to gauge the Agency's performance health, not on one question, but multiple questions related to the Agency's Performance Culture, which is one of three goals in the FHFA People Plan. FHFA's 2022 FEVS Index score for Performance Confidence was 92 percent positive, well above the 70 percent target.

PERFORMANCE MEASURE 3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index

FHFA measures agency-wide employee engagement as compared to what is considered an overall strength as defined by the Office of Personnel Management (OPM). FHFA compared the Agency's Employee Engagement Index in the FEVS report against the results for the entire federal government. The FEVS is conducted on an annual basis to measure employees' perceptions of many work issues. OPM uses the results of these surveys to determine an engagement index based on a selection of these questions. FHFA's 2022 FEVS Index score for Employee Engagement was 77 percent positive, above the 70 percent target.

PERFORMANCE MEASURE 3.1.3: Improve Time-to-Hire

The purpose of this measure is to monitor the time required to hire job applicants and fill vacant positions. The average hiring time for FY 2023 was 112 calendar days, missing the target of 80 calendar days.

In FY 2023, FHFA transitioned from counting workdays to calendar days to align with federal standards for tracking Time-to-Hire (T2H). This accounts for the change from 95 workdays in FY 2022 to 112 calendar days in FY 2023 while still demonstrating improvement in overall T2H.

PERFORMANCE MEASURE 3.1.4: Develop FHFA Culture Plan

FHFA is undertaking the VBCI to closely review its current culture and to define an Agency culture that is firmly grounded in the FAIR values. The FHFA Culture Plan offers a roadmap for achieving FHFA's desired, unified culture. Culture change takes time and will be incremental. The Agency completed and finalized the FHFA Culture Plan in December 2022.

STRATEGIC OBJECTIVE 3.2: ENSURE EFFICIENT AND EFFECTIVE STEWARDSHIP OF AGENCY RESOURCES

Success in meeting FHFA's mission and goals requires empowered and supported staff and prudent business practices. FHFA employs financial, contracting, and performance information to ensure that resources are managed responsibly. In FY 2023, FHFA monitored three measures for Strategic Objective 3.2 and met the targets for all three of these measures. The table below reports progress on these measures.

Table 17: Strategic Objective 3.2 – Summary of Performance Measures and Results

Strategic Objective 3.2: Ensure efficient and effective stewardship of Agency resources							
Performance Measure	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023 Target**	**FY 2023 Result**
3.2.1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses	MET	MET	MET	MET	MET	100 percent of the time	MET
3.2.2: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	MET	MET	NOT MET	MET	MET	Total dollar amount of contracts greater than the five-year average	MET
3.2.3: Management completes corrective actions to address FHFA Office of Inspector General recommendations in a timely manner	N/A	N/A	N/A	NOT MET	NOT MET	90 percent of the corrective actions to address Office of Inspector General recommendations are completed within one year of the resolution date or the approved timeframe	MET

PERFORMANCE MEASURE 3.2.1:
Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses

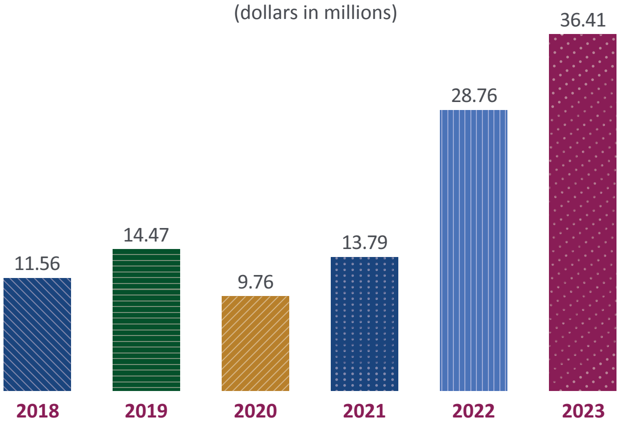
Financial statements provide information that is essential to evaluating FHFA's financial condition. The financial statements show where FHFA's money came from, where it went, and where it is now. The financial statements audit tests: (1) accuracy, consistency, and FHFA adherence to applicable government accounting standards; and (2) the internal controls to determine whether the financial statements are reliable. An unmodified opinion with no material weaknesses or unacceptable risks is the best result of any audit. Achieving this level of excellence indicates the use of proper accounting controls and the proper application of accounting standards. It means that the financial statements are reliable, accurate, and complete. FHFA has received a clean audit every year since the creation of the Agency in 2008.

PERFORMANCE MEASURE 3.2.2: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards

This measure demonstrates the effectiveness of the initiatives and actions in which FHFA engaged in FY 2023 to increase greater opportunities for diverse firms, as required by Section 342 of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. The measure reports the total obligated amount of FHFA contracts awarded to minority- and women-owned businesses (MWOBs). In FY 2023, $36,414,043 of Agency contract dollars went to MWOBs, representing 36.9 percent of the Agency's total obligated amount. This amount exceeded FHFA's five-year annual historical average of $15.67 million in MWOB contract obligations by $20.74 million. During FY 2023, FHFA continued to engage external and internal partners and stakeholders and look for opportunities that provide FHFA access to MWOB goods or services. FHFA awarded various information technology (IT) infrastructure and service projects to MWOBs and created multiple-award contracting vehicles in the areas of administrative and program management services, human resources, and training, which included various qualified MWOBs. FHFA's expanded market research efforts in these industries and its ability to create multiple-award contracting environments provided increased opportunities for MWOBs throughout FHFA's contracting portfolio.

Figure 12: Obligated Amounts to MWOBs[32]

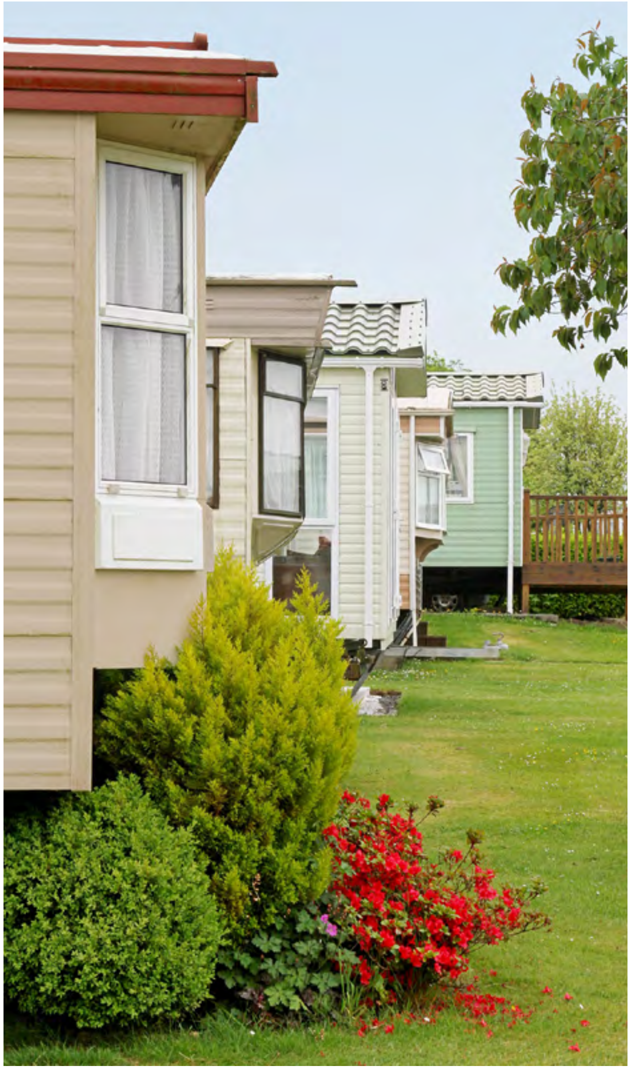
(dollars in millions)



Note: Historical data may slightly differ due to correction in methodology year over year.

PERFORMANCE MEASURE 3.2.3: Complete corrective actions to address audit recommendations in a timely manner

FHFA's target for timely audit follow-up is to complete 90 percent of the corrective actions to address OIG recommendations within one year of the resolution date or the approved timeframe. In FY 2023, FHFA completed 35 out of 39 recommendations within the targeted timeframe. This resulted in a completion rate of 90 percent of recommendations completed within that timeframe.



[32] Obligated amounts may not align with previous years' PAR reporting due to updated transaction records and in the event the MWOB status of a business has been revised.

STRATEGIC OBJECTIVE 3.3: DELIVER HIGH-QUALITY SUPPORT SERVICES THAT PROMOTE THE AGENCY'S MISSION EFFECTIVENESS AND SAFEGUARD THE AGENCY'S INFRASTRUCTURE

The Agency provides responsive, secure, and efficient IT capabilities that are essential to FHFA's ability to accomplish its mission. In FY 2023, FHFA monitored two measures for Strategic Objective 3.3 and met the target for one of these measures. The table below reports progress on these measures.

Table 18: Strategic Objective 3.3 – Summary of Performance Measures and Results

Strategic Objective 3.3: Deliver high-quality support services that promote the Agency's mission effectiveness and safeguard the Agency's infrastructure

Performance Measure	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 Target	FY 2023 Result
3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies	MET	MET	MET	MET	MET	100 percent of the time	MET
3.3.2: Develop FHFA Information Technology Strategic Plan	N/A	N/A	N/A	N/A	N/A	Q4 FY 2023	NOT MET

PERFORMANCE MEASURE 3.3.1: Ensure FHFA's Federal Information Security Modernization Act audit identifies no significant deficiencies

This measure reports on the effectiveness of security and privacy controls that FHFA uses to secure the Agency's information and systems. The FY 2023 Federal Information Security Modernization Act of 2014 audit identified no significant deficiencies or material weaknesses.[33]

PERFORMANCE MEASURE 3.3.2: Develop FHFA Information Technology Strategic Plan

Effective business technology is critical to enabling the Agency mission. Technology deployment requires significant advance planning, and having an associated plan is critical to long-term stewardship of the Agency infrastructure. This measure accounts for FHFA's progress towards developing a plan that captures the Agency's information technology vision and long-term requirements and appropriately outlines steps and strategies to ensure that the Agency develops and maintains the business technologies necessary to support the Agency's mission. FHFA's IT Strategic Plan is under review and planned for release in FY 2024.

[33] The final report can be found at **Audit of the Federal Housing Finance Agency's Information Security Programs and Practices Fiscal Year 2023 Audit | FHFA-OIG (fhfaoig.gov)**.

ADDED, CHANGED, AND DISCONTINUED MEASURES

Table 19: Performance Measures Added, Changed, and Discontinued in FY 2023		
STRATEGIC GOAL 1: SECURE THE REGULATED ENTITIES' SAFTEY AND SOUNDNESS		
Language in 2022	**Language in 2023**	**Explanation**
1.1.1a: Conduct risk-focused supervision and examinations of the Enterprises by having written risk-based examination plans approved by January 31, 2022 **Target:** 100 percent of the time	**1.1.1a:** Conduct risk-focused supervision and examinations of the Enterprises and Common Securitization Solutions by having written risk-based examination plans approved by January 31 **Target:** 100 percent of the time	For FY 2023, FHFA included Common Securitization Solutions in the scope of the measure.
1.1.2a: Approve reports of examination by March 31, 2022, for the Enterprises **Target:** 100 percent of the time	**1.1.2a:** Approve reports of examination by April 15 for the Enterprises and Common Securitization Solutions **Target:** 100 percent of the time	For FY 2023, FHFA changed the deadline for the measure and included Common Securitization Solutions in the scope of the measure.
2.2.5: Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon remediation plans and timeframes **Target:** 90 percent of the time	**1.2.2:** Determine regulated entities have satisfactorily addressed Matters Requiring Attention relating to their Diversity and Inclusion programs, in accordance with agreed-upon remediation plans and timeframes **Target:** 90 percent of the time	This measure was moved under a new objective based on the new Strategic Plan.
1.3.1: Issue a proposed rule on Enterprise disclosures under the Enterprise Regulatory Capital Framework **Target:** FY 2022		FHFA discontinued the measure after meeting the target.
	1.3.1: Provide decision to Enterprises regarding completeness of resolution plan submissions in conjunction with readiness activities **Target:** July 31, 2023	New measure in FY 2023.
1.3.2: Issue a proposed rule on Enterprise Capital Planning **Target:** FY 2022		FHFA discontinued the measure after meeting the target.
	1.3.2: Monitor and rate the Enterprises' performance against current Scorecard objectives **Target:** Complete quarterly assessment within 30 days of quarter end (within 60 days for year-end assessment)	New measure in FY 2023.
STRATEGIC GOAL 2: FOSTER HOUSING FINANCE MARKETS THAT PROMOTE EQUITABLE ACCESS TO AFFORDABLE AND SUSTAINABLE HOUSING		
Language in 2022	**Language in 2023**	**Explanation**
2.1.2: Publish annual Guarantee Fee Report **Target:** December 2021		FHFA reorganized this measure under Strategic Objective 2.3 for FY 2023 as Measure 2.3.4.
2.2.1: Publish final Enterprise housing goals rule for 2022-24 **Target:** December 2021		FHFA met the FY 2022 target.

Table 19: Performance Measures Added, Changed, and Discontinued in FY 2023

	2.2.1: Issue an FHFA Enterprise Fair Lending Rating System **Target:** Q4 FY 2023	New measure in FY 2023.
2.2.2: Issue annual ratings for each Enterprise's Duty to Serve performance in 2020 **Target:** October 2021		FHFA met the FY 2022 target.
	2.2.2: Ensure Enterprises' updated Equitable Housing Finance Plans are published **Target:** Q3 FY 2023	New measure in FY 2023.
2.2.3: Determine that the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard **Target:** 1. Each Enterprise's mission driven business meets or exceeds 50% of total multifamily business for CY 2021, and 2. at least 20 percent of each Enterprise's total business is affordable at or below 60 percent of area median income (AMI)	**2.4.1:** Determine that the Enterprises have met the mission-driven requirements in Appendix A of the Conservatorship Scorecard **Target:** By the end of calendar year 2022, 1. Each Enterprise's mission driven business meets or exceeds 50 percent of total multifamily business, and 2. at least 25 percent of each Enterprise's total business is affordable at or below 60 percent of area median income	FHFA kept and reorganized the FY 2022 measure under Strategic Objective 2.4 for FY 2023. FHFA made the FY 2023 target more ambitious as a stretch goal.
2.2.4: Issue an Operating Procedures Bulletin on fair lending examinations for the Enterprises **Target:** July 2022	N/A	After meeting the FY 2022 target, FHFA discontinued this measure.
2.2.6a: Approve Diversity and Inclusion reports of examination by March 31, 2022, for the Enterprises and Common Securitization Solutions **Target:** 100 percent of the time	**1.1.6a:** Approve Diversity and Inclusion reports of examination by April 15, for the Enterprises and Common Securitization Solutions **Target:** 100 percent of the time	For FY 2023, revised the deadline to April 15.
2.2.6b: Approve Diversity and Inclusion reports of examination for at least nine of the FHLBank System regulated entities **Target:** 100 percent of the time	**1.1.6b:** Approve Diversity and Inclusion reports of examination for at least four of the FHLBank System regulated entities **Target:** 100 percent of the time	For FY 2023, FHFA changed the scope to include at least four of the FHLBank System regulated entities.
	2.3.4: Publish annual Guarantee Fee Report **Target:** December 2022	FHFA reorganized this measure under Strategic Objective 2.3 for FY 2023. In FY 2022, the Agency reported this measure as Measure 2.1.2.
	2.4.2: Determine that Real Estate Owned properties held by the Enterprises are marketed providing an exclusive opportunity for owner-occupants and community-oriented organizations to purchase the property prior to investors **Target:** More than 90 percent of vacant properties marketed	New measure in FY 2023.
	2.5.1: Complete analysis of input received from the Request for Input on Fintech in Housing Finance issued in FY 2022, capturing an overview of responses received **Target:** March 31, 2023	New measure in FY 2023.

Table 19: Performance Measures Added, Changed, and Discontinued in FY 2023

STRATEGIC GOAL 3: RESPONSIBLY STEWARD FHFA'S INFRASTRUCTURE		
Language in 2022	**Language in 2023**	**Explanation**
3.1.1: Responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals" **Target:** Positive responses equal to or higher than both the small agency and government-wide averages		FHFA discontinued this measure and replaced it with a new measure. FHFA continuously met the FY 2022 measure 3.1.1.
	3.1.1: Federal Employee Viewpoint Survey Performance Confidence Index **Target:** 70 percent positive	New measure in FY 2023.
3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index is at or above the percent that the Office of Personnel Management considers an agency "Strength" **Target:** 65 percent positive		FHFA discontinued this measure and replaced it with a new measure. FHFA continuously met the FY 2022 measure 3.1.2.
	3.1.2: Federal Employee Viewpoint Survey Employee Engagement Index **Target:** 70 percent positive	New measure in FY 2023.
3.1.4: Develop FHFA Human Capital Plan **Target:** July 2022		FHFA did not meet this measure in FY 2022 but completed it in FY 2023. FHFA replaced the previous measure with a new measure in FY 2023.
	3.1.4: Develop FHFA Culture Plan **Target:** Q1 FY 2023	New measure in FY 2023.
3.2.2: Award FHFA contracts competitively **Target:** 75 percent		This measure was discontinued because FHFA continuously met the target.
3.2.4: Increase the obligated dollar amount of FHFA contract actions awarded to minority- and women-owned businesses consistent with legal standards and best value assessments **Target:** Total dollar amount of contracts greater than the five-year average	N/A	The measure was renumbered as Measure 3.2.2 in FY 2023.
3.3.2: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff **Target:** 99.5 percent of the time		This measure was discontinued because FHFA continuously met the target.
	3.3.2: Develop FHFA Information Technology Strategic Plan **Target:** Q4 FY 2023	New measure in FY 2023.
3.3.3: Determine average user response on FHFA Help Desk ticket surveys **Target:** 4.5 rating on a scale of 0 to 5	N/A	This measure was discontinued because FHFA continuously met the target.

Financial Section

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2023 financial statements from the Government Accountability Office (GAO). We are proud of the fact that FHFA has received an unmodified audit opinion every year since its inception in July 2008.

At the heart of our sustained record of unmodified opinions on the Agency's financial statements is a strong control environment that ensures our internal controls over financial reporting are operating effectively in their design and operation. In FY 2024, we will continue to strengthen our controls in contract administration and oversight, and payroll processing. We will also increase our oversight of the consolidation of the Office of Inspector General's financial statements into the overall FHFA Financial Statements.

I am very proud of the professionalism of our employees charged with the planning, executing, and accounting for the Agency's resources. It is through their efforts and commitment that we continue to achieve unmodified audit opinions on our financial statements. Clean financial statement audits reflect strong stewardship of our resources which strengthens the public's confidence in the ability of FHFA to achieve its important mission.

Sincerely,

Mark Kinsey

Mark Kinsey
Chief Financial Officer
November 8, 2023

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 2023 and 2022 financial statements of the Federal Housing Finance Agency (FHFA), we found

- FHFA's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023; and
- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis-of-matter—FHFA Reporting Entity, required supplementary information (RSI)[1] and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

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

Opinion on the Financial Statements

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, 2023, and 2022; 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. In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2023, and 2022, 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.

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion on Internal Control over Financial Reporting

We also have audited FHFA's internal control over financial reporting as of September 30, 2023, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, although certain internal controls could be improved, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, based on criteria established under FMFIA. As discussed below in more detail, our 2023 audit identified deficiencies in FHFA's controls over its review of payroll accruals that collectively represents a significant deficiency in FHFA's internal control over financial reporting.[4] We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on FHFA's fiscal year 2023 financial statements.

Although the significant deficiency in internal control did not affect our opinion on FHFA's 2023 financial statements, misstatements may occur in unaudited financial information reported internally and externally by FHFA because of this significant deficiency.

We will be reporting additional details concerning this significant deficiency separately to FHFA management, along with recommendations for corrective actions. In addition to the significant deficiency in internal control over FHFA's review of payroll accruals, we also identified other deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to FHFA management and, where appropriate, will report on them separately.

Significant Deficiency in Internal Control over Review of Payroll Accruals

During our 2023 audit, we identified deficiencies in FHFA's review of payroll accruals that represent a significant deficiency in FHFA's internal control over financial reporting. Specifically, FHFA's internal controls did not timely prevent, or detect and correct, a misstatement in its accrual of the Federal Employee Compensation Act (FECA) actuarial liability as of September 30, 2023.[5]

The Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) provides accounting services to FHFA, including (1) preparation of various year-end accruals for FHFA and (2) preparation of its consolidated financial statements. Our audit identified that Fiscal Service incorrectly calculated the FECA actuarial liability amount as of September 30, 2023, which resulted in overstating the $660,000 liability by $1.3 million in FHFA's draft financial statements. Although FHFA has procedures for reviewing both the accrual and the financial

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[4]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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]FECA (5 U.S.C. § 8101 et seq.) provides compensation to federal employees for disability due to work-related injury or illness.

INDEPENDENT AUDITOR'S REPORT

statements for reasonableness, such reviews were not adequate to identify the misstatement. After we brought the misstatement to FHFA's attention, FHFA corrected it.

Standards for Internal Control in the Federal Government states that management should design control activities to achieve objectives and respond to risks.[6] This includes control activities to help ensure that transactions are accurately recorded. Without adequate processes for reviewing year-end accruals, FHFA increases the risk that misstatements in the financial statements will not be prevented, or detected and corrected, on a timely basis.

While these deficiencies do not individually or collectively constitute a material weakness, they are important enough to merit the attention of those charged with governance of FHFA. Thus, these deficiencies represent a significant deficiency in FHFA's internal control over financial reporting as of September 30, 2023. Management commitment and attention will be essential to addressing these deficiencies and improving FHFA's controls over its review of payroll accruals.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of FHFA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter

FHFA Reporting Entity

As discussed in note 1A of the financial statements, FHFA's fiscal years 2023 and 2022 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.[7] 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. Following criteria in Statement of Federal Financial Accounting Standards No. 47 (SFFAS 47), *Reporting Entity*, the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) determined that the assets, liabilities, and activities of Fannie Mae and Freddie Mac would not be consolidated into federal reporting entity financial statements. However, the values of the investment in the entities and related activities are presented in Treasury's financial statements.

In making this determination, OMB and Treasury concluded that the entities are owned or controlled by the federal government as a result of regulatory actions, such as organizations in receivership or conservatorship, or other federal government intervention actions. Under such

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[6]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

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

INDEPENDENT AUDITOR'S REPORT

regulatory or other intervention actions, the relationship with the federal government is not expected to be permanent. These entities are classified as disclosure entities when considering their characteristics taken as a whole.[8]

FHFA management concurred with this conclusion, and FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2023 and 2022 financial statements. However, as Fannie Mae and Freddie Mac are considered to be disclosure entities, FHFA disclosed certain financial and other information about the entities in the notes to its financial statements. Our opinion on FHFA's financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for

- the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in FHFA's performance and accountability report, and ensuring the consistency of that information with the audited financial statements and the RSI;
- designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and
- its assessment about the effectiveness of internal control over financial reporting as of September 30, 2023, included in the FHFA Statement of Assurance section of the agency's performance and accountability report.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects, and (2) issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material

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

INDEPENDENT AUDITOR'S REPORT

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FHFA's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that

INDEPENDENT AUDITOR'S REPORT

- 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

- 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.

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. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it 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. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our 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.

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. Management is responsible for the other information included in FHFA's performance and accountability report. The other information comprises the following sections of the *FHFA FY 2023 Performance and Accountability Report*: Message from the Director; FHFA's Mission, Vision, and Values; Performance Section, Other Information, and Appendices, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

INDEPENDENT AUDITOR'S REPORT

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

In connection with our audits of FHFA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

<u>Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 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.

<u>Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

<u>Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

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

<u>Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

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

<u>Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

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

INDEPENDENT AUDITOR'S REPORT

Agency Comments

In commenting on a draft of this report, FHFA stated that it was pleased to accept GAO's unmodified audit opinions. In addition, it will continue to enhance its internal control and ensure the reliability of its financial reporting. This includes coordinating with its stakeholders involved in the financial statement consolidation process to implement additional controls to address the significant deficiency. The complete text of FHFA's response is reprinted in appendix I.

Anne Sit-Williams
Director
Financial Management and Assurance

November 8, 2023

APPENDIX I: FHFA'S RESPONSE TO AUDITOR'S REPORT

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

November 8, 2023

Ms. Anne Sit-Williams
Director, Financial Management and Assurance
U. S. Government Accountability Office
441 G Street, NW
Washington, D. C. 20548

Dear Ms. Sit-Williams:

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 2023 and 2022 Financial Statements. This report presents GAO's opinion on the consolidated financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2023 and 2022, GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2023, and GAO's evaluation of FHFA's compliance with laws and regulations.

I am pleased to accept GAO's unmodified opinion on the FHFA consolidated financial statements. FHFA also received an opinion that it maintained, in all material respects, effective internal control over financial reporting. GAO found no instances of reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements it tested.

FHFA will continue to work to enhance our internal controls and ensure the reliability of our financial reporting. GAO identified a significant deficiency in the internal controls over financial reporting. While the individual transaction was corrected prior to the publication of the consolidated financial statements, FHFA will coordinate with our stakeholders involved in the financial statement consolidation process to implement additional controls that will address the significant deficiency. We appreciate your support of these efforts. In addition, we would like to acknowledge the dedicated GAO staff that worked with FHFA to meet the reporting deadline for our audited financial statements.

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

Sincerely,

SThompson

Sandra L. Thompson
Director

Federal Housing Finance Agency

Consolidated Balance Sheets

As of September 30, 2023 and 2022

(In Thousands)

	2023		2022	
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	21,125	$	15,938
Investments, Net (Note 3)		134,628		113,898
Accounts Receivable, Net (Note 4)		22		-
Advances and Prepayments		766		607
Total Intragovernmental		156,541		130,443
With the Public:				
Accounts Receivable, Net (Note 4)		28		3
General Property, Plant, and Equipment, Net (Note 5)		9,646		11,676
Advances and Prepayments		5,402		5,594
Total With the Public		15,076		17,273
Total Assets	$	171,617	$	147,716
Liabilities (Note 6):				
Intragovernmental:				
Accounts Payable	$	815	$	961
Advances From Others and Deferred Revenue		2,229		1,607
Other Liabilities, Net (Note 7)		1,614		1,329
Total Intragovernmental		4,658		3,897
With the Public:				
Accounts Payable		11,625		11,631
Federal Employee Benefits Payable, Net				
Unfunded Accrued Annual Leave		21,422		20,714
FECA Actuarial Liability		666		139
Employer Contributions and Payroll Taxes Payable		332		325
Advances from Others and Deferred Revenue		3		-
Other Liabilities, Net (Note 7)				
Deferred Lease Liability		12,619		15,489
Other Liabilities		4,211		4,060
Total With the Public		50,878		52,358
Total Liabilities	$	55,536	$	56,255
Commitments and Contingencies (Note 9)				
Net Position:				
Cumulative Results of Operations - Funds from Other Than Dedicated Collections		116,081		91,461
Total Cumulative Results of Operations		116,081		91,461
Total Net Position		116,081		91,461
Total Liabilities and Net Position	$	171,617	$	147,716

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

Federal Housing Finance Agency

Consolidated Statements of Net Cost

For the Years Ended September 30, 2023 and 2022

(In Thousands)

	2023	2022
Gross Program Costs by Strategic Goals - (Note 10)		
Safety and Soundness	$ 196,493	$ 180,273
Equitable Access to Affordable and Sustainable Housing	63,260	59,263
Responsibly Steward FHFA's Infrastructure	126,249	98,818
Gross Program Costs	386,002	338,354
Less: Total Earned Revenue not Attributable to Strategic Goals	(397,513)	(320,327)
Net (Income From)/Cost of Operations	**$ (11,511)**	**$ 18,027**

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, 2023 and 2022

(In Thousands)

	2023		2022	
Cumulative Results of Operations:				
Beginning Balance	$	91,461	$	101,589
Imputed Financing Sources		13,109		7,899
Net Cost of Operations		11,511		(18,027)
Net Change in Cumulative Results of Operations		24,620		(10,128)
Total Cumulative Results of Operations	**$**	**116,081**	**$**	**91,461**
Net Position	**$**	**116,081**	**$**	**91,461**

The accompanying notes are an integral part of these statements.

Federal Housing Finance Agency

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2023 and 2022

(In Thousands)

		2023		2022
Budgetary Resources:				
Unobligated Balance From Prior Year Budget Authority, Net (Note 11)	$	75,093	$	99,284
Appropriations (Note 1.D.)		396,032		318,739
Spending Authority From Offsetting Collections		56,240		49,104
Total Budgetary Resources	**$**	**527,365**	**$**	**467,127**
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Total)	$	450,204	$	407,349
Unobligated Balance, End of Year:				
Exempt From Apportionment, Unexpired Accounts		77,161		59,778
Unexpired Unobligated Balance, End of Year		77,161		59,778
Unobligated Balance, End of Year (Total)		77,161		59,778
Total Budgetary Resources	**$**	**527,365**	**$**	**467,127**
Outlays, Net:				
Outlays, Net (Total)	$	370,137	$	334,553
Distributed Offsetting Receipts		(396,034)		(318,739)
Agency Outlays, Net	**$**	**(25,897)**	**$**	**15,814**

The accompanying notes are an integral part of these statements.

Federal Housing Finance Agency

Notes to the Financial Statements

For the Years Ended September 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

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

HERA provided for an FHFA Office of the Inspector General (FHFA OIG), which has maintained its own Agency Location Code and set of accounting books since April 2011. The Inspector General Act of 1978, as amended, sets forth the functions and authorities of the FHFA OIG. The reporting entity for purposes of financial statements includes FHFA and FHFA OIG. Under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac (the Enterprises) under conservatorships on September 6, 2008 to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as Conservator, assumed the power of stockholders, boards, and management. FHFA has assigned to the Enterprises' boards and management certain business and operational authority. FHFA personnel monitor the operations of the Enterprises.

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

Both Enterprises, acting through FHFA as their Conservator, entered into separate Senior Preferred Stock Purchase Agreements (SPSPAs) with Treasury on September 7, 2008. The SPSPAs were amended and restated on September 26, 2008. The SPSPAs were further amended by the first (May 6, 2009), second (December 24, 2009), and third (August 17, 2012) amendments, and the SPSPAs and the senior preferred stock certificates of designation were amended by letter agreements between the Enterprises and Treasury, executed in 2017, 2019, and 2021. The SPSPAs commit Treasury to provide funding for each Enterprise, up to a maximum available funding commitment, to ensure that each Enterprise maintains a non-negative net worth, thereby avoiding a statutory requirement that an Enterprise be put in receivership. Under the SPSPAs, each Enterprise notifies FHFA of its net worth position as established by its financial statements (e.g., 10-K or 10-Q). Each Enterprise also submits a statement certifying compliance with SPSPA covenants, which include limits on portfolio size and indebtedness. FHFA, in its role as Conservator, reviews Enterprise financial statements, and, if an Enterprise's liabilities exceed its assets, may submit a request to Treasury to draw upon Treasury's remaining funding commitment.

The SPSPAs also require the Enterprises to pay a dividend in exchange for the Treasury Department's investment. The Third amendment changed the dividend owed to Treasury from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance (equivalent to positive net worth above a minimum capital reserve amount). The September 27, 2019 letter amendments increased the minimum capital reserve amounts for the Enterprises, which conditionally eliminated the Enterprises' quarterly dividend obligation to Treasury. Amendments to the SPSPAs and stock certificates made pursuant to January 14, 2021 letter agreements between the Enterprises and Treasury currently allow the Enterprises to continue to retain earnings until they satisfy the requirements, including buffers, of FHFA's **2020 Enterprise capital rule**. Pursuant to the January 14, 2021 letter agreements, upon achievement of the requirements the Enterprises will resume quarterly dividend payments.

B. BASIS OF PRESENTATION

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

C. BASIS OF ACCOUNTING

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and the liability or expenses are generally recognized when incurred, without regard to receipt or payment of cash. These principles differ from budgetary accounting and reporting principles, which are used for preparing the Statement of Budgetary Resources. The Statement of Budgetary Resources reflects how budgetary resources were made available to the entity during the year and reports the net outlays of these items at year-end. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases records obligations before the occurrence of an accrual-based transaction. The differences relate primarily to the recording of capitalization and depreciation of property and equipment, as well as the recognition of other assets and liabilities. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds. FHFA's financial statements conform with U.S. GAAP for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the body designated to establish U.S. GAAP for federal reporting entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

D. REVENUES

Although our assessments are reported as Appropriations in the Combined Statement of Budgetary Resources, FHFA is not subject to appropriations. Operating revenues of FHFA are obtained through assessments of the regulated entities. The head of the Agency approved the annual budget for FY 2023 and FY 2022 in August 2022 and 2021, respectively. By law, FHFA is required to charge semi-annual assessments to the regulated entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the regulated entities, plus amounts determined by the head of the Agency to be necessary for maintaining a working capital fund.

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

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

E. USE OF ESTIMATES

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

F. FUND BALANCE WITH TREASURY

The Treasury processes cash receipts and disbursements on FHFA’s behalf. Funds held at 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, and Freedom of Information Act (FOIA) request fees, when applicable. FHFA is not authorized to retain fees and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections, FOIA fees, and as such, records these as liabilities until transferred to the Treasury General Fund.

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

G. INVESTMENTS

FHFA has the authority to invest in Treasury securities with maturities suitable to FHFA's needs. Non-marketable, Government Account Series (GAS) 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 (see Treasury Financial Manual, Chapter 4300). FHFA invests solely in Treasury securities. During FY 2023 and FY 2022, FHFA invested in one-day certificates of indebtedness, a type of market-based GAS security issued by Treasury.

H. ACCOUNTS RECEIVABLE

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

I. GENERAL PROPERTY, AND EQUIPMENT, NET

General Property, Plant, and Equipment is recorded at historical cost. It consists of tangible assets and software. The following are the capitalization thresholds and useful life classifications:

Description	Threshold		Useful Life (Years)
Furniture and Equipment	$	50,000	3
Leasehold Improvements	$	250,000	The useful life of the asset or the remaining term of lease at the time of improvement completion, whichever is shorter.
Software: Internally Developed	$	500,000	3
Software: Off-the-Shelf	$	500,000	3
Capitalized Leases	$	250,000	Term of lease

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.

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

J. ADVANCES AND PREPAID CHARGES

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

K. LIABILITIES

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

FHFA reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another federal entity. Liabilities With the Public represent funds owed to any entity or person that is not a federal entity, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities that are not covered by budgetary resources. Note 6 contains a breakout by these categories.

Liabilities **covered** by budgetary resources are liabilities funded by realized budgetary resources including new budget authority, unobligated balances of budgetary resources at the beginning of year or net transfers of prior year balances during the year, spending authority from offsetting collections and recoveries of unexpired budget authority. These consist of accounts payable, advances from others and deferred revenue, other intragovernmental liabilities, other liabilities, and employer contributions and payroll taxes payable. Accounts payable represents amounts owed to employees for travel related expenses and other entities for goods ordered and received and for services rendered. Advances from others and deferred revenue are amounts received for goods or services to be delivered or performed in the future and reflect amounts that have yet to be earned. Other intragovernmental liabilities may include interest payable to federal entities and advances and prepayments from other federal entities. Employer contributions and payroll taxes payable represents the amount of the employer portion of payroll taxes and benefit contributions, such as retirement, including the federal entity's contribution to the Thrift Savings Plan, and health and life insurance for covered employees. Other liabilities can include accrued payroll and benefits 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 workers' compensation claims filed under the Federal Employees' Compensation Act (FECA). FHFA obligates funds for potential FECA claims each fiscal year; the funds remain on the books for two years and three months. Unused funds after the two-year period are deobligated within three months from the end of the two-year period. Funded FECA liability represents the amount FHFA is to reimburse DOL for claims paid to FHFA employees.

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

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. The Constitution Center tenant allowance is the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease. The tenant allowance began at inception of the lease and extends through the life of the lease, ending in January 2027. Monthly FHFA reduces the tenant allowance and charges the amount to the Deferred lease liability account, which reduces the lease expense over the lease term. Lease costs are based on the straight-line method. Deferred rent is applicable to the lease agreements on the properties with non-cancellable lease terms. See Note 8. Leases for specific lease information.

Liabilities related to capital leases are also discussed in Note 8. Leases.

L. EMPLOYEE LEAVE AND BENEFITS

Employee Leave: All full-time FHFA employees are entitled to accrue sick leave at a rate of four hours per pay period. Full- time employees are eligible to earn sick leave immediately upon being hired. Annual leave is accrued based on years of creditable federal service and military service, with the following exceptions: Former Office of Federal Housing Enterprise Oversight employees hired between April 25, 2005 and July 30, 2008 accrue annual leave based on years of creditable federal and military service as well as years of relevant private sector experience (HERA abolished the Office of Federal Housing Enterprise Oversight when FHFA was established in July (2008). Additionally, FHFA employees hired into mission critical positions at or above the EL-13 level, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal entities may also have been authorized to receive credit for private sector time. Employees in non-supervisory and non-manager positions may carry-over up to 240 hours of annual leave each year. Supervisors and managers (below EL-15) may carryover up to 480 hours of annual leave each year. The FHFA Leadership Level's equivalent to the Senior Executive Service employees may accrue annual leave of eight (8) hours each pay period, which is consistent with the government-wide rules for Senior Executive Service level employees and FHFA executives may carry over annually up to 720 hours of annual leave. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. This represents amounts of annual leave that have been earned and are payable, and will be paid from future years funds. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to an employee upon leaving federal service and calculated based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon retirement, any unused sick leave under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) is creditable towards an employee's annuity computation.

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

M. RETIREMENT PLANS

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

FERS, RAE, and FRAE are provided under calculations for both regular employees as well as law enforcement employees in the OIG. FHFA remits the employer's share of the required contribution, which is 7.0 percent for CSRS and CSRS Offset, 18.4 percent for FERS, 37.6 percent for FERS Law Enforcement Officer (LEO), 16.6 percent for FERS-RAE and FERS-FRAE, and 35.8 percent for FERS-RAE LEO and FERS-FRAE LEO. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. FERS employees are automatically enrolled in TSP and 5.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security. The 2023 maximum taxable wage base for Social Security is $160,200.

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

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

In addition to the TSP, FHFA offers a supplemental 401(K) plan. All CSRS and FERS employees are eligible to contribute to the 401(K). All eligible employees that participate will receive matching contributions from FHFA 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 annual 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 future outflows are both probable and can be reasonably estimated. FHFA discloses contingencies in the notes to the financial statements when a loss from the outcome of future events is more than remote but less than probable or when the liability is probable but cannot be reasonably estimated.

O. CLASSIFIED ACTIVITIES

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

P. INTER-ENTITY COSTS

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

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The unobligated and obligated balances reported in the FBWT may not equal related amounts reported on the Combined Statements of Budgetary Resources. The unobligated and obligated balances reported on the Combined Statements of Budgetary Resources are supported by the FBWT, as well as other budgetary resources that do not affect the FBWT (i.e., unfilled customer orders). The funds in the working capital fund were fully invested during FY 2023 and FY 2022. FBWT account balances as of September 30, 2023 and 2022 were as follows (dollars in thousands):

	2023	2022
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 77,161	$ 59,778
Unavailable	3	-
Obligated Balance Not Yet Disbursed	78,569	70,058
Investments	(134,608)	(113,898)
Total	**$ 21,125**	**$ 15,938**

Note 3. Investments

Investments as of September 30, 2023 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 134,608	$ -	$ 20	$ 134,628	$ 134,628

Investments as of September 30, 2022 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 113,898	$ -	$ -	$ 113,898	$ 113,898

Non-marketable, Government Account Series 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 Treasury. There were no amortized premiums/discounts on investments as of September 30, 2023 or 2022. Interest earned on investments was $10.0 million and $1.3 million for FY 2023 and FY 2022, respectively.

Note 4. Accounts Receivable, Net

Accounts Receivable balances as of September 30, 2023 and 2022 were as follows (dollars in thousands):

	2023	2022
Intragovernmental		
Accounts Receivable	$ 22	$ -
Total Intragovernmental Accounts Receivable	**$ 22**	**$ -**
With the Public		
Accounts Receivable	$ 28	$ 3
Total With the Public Accounts Receivable	**$ 28**	**$ 3**
Total Accounts Receivable	**$ 50**	**$ 3**

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

Schedule of General Property, Plant, and Equipment as of September 30, 2023 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 23,556	$ 22,723	$ 833
Leasehold Improvements	36,263	27,453	8,810
Internal-Use Software	1,728	1,728	-
Machinery and Equipment Under Capital Lease	274	274	-
Construction-in-Progress	3	-	3
Total	**$ 61,824**	**$ 52,178**	**$ 9,646**

Schedule of General Property, Plant, and Equipment as of September 30, 2022 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 22,740	$ 22,544	$ 196
Leasehold Improvements	36,135	24,895	11,240
Internal-Use Software	1,728	1,728	-
Machinery and Equipment Under Capital Lease	274	250	24
Construction-in-Progress	216	-	216
Total	**$ 61,093**	**$ 49,417**	**$ 11,676**

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

Note 6. Liabilities Covered and Not Covered by Budgetary Resources

There are not any liabilities under the category of not requiring Budgetary Resources. Refer to Note 1.K. for a description of the types of liabilities contained in the tables below. Changes in the presentation in the current year in comparison to the prior year presentation are to conform to current reporting standards and requirements, such the addition of Advances from Others and Deferred Revenue and disaggregation of Other Liabilities into two lines, Employer Contributions and Payroll Taxes Payable and Other Liabilities.

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2023 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 815	$ -	$ 815
Advances from Others and Deferred Revenue	2,229	-	2,229
Other Intragovernmental Liabilities	1,614	-	1,614
Total Intragovernmental Liabilities	**$ 4,658**	**$ -**	**$ 4,658**
With the Public			
Accounts Payable	$ 11,625	$ -	$ 11,625
Unfunded Accrued Annual Leave	-	21,422	21,422
FECA Actuarial Liabilities	-	666	666
Employer Contributions and Payroll Taxes Payable	332	-	332
Advances from Others and Deferred Revenue	3	-	3
Deferred Lease Liabilities	-	12,619	12,619
Other Liabilities	4,211	-	4,211
Total With the Public Liabilities	**$ 16,171**	**$ 34,707**	**$ 50,878**
Total Liabilities	**$ 20,829**	**$ 34,707**	**$ 55,536**

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2022 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 961	$ -	$ 961
Advances from Others and Deferred Revenue	1,607	-	1,607
Other Intragovernmental Liabilities	1,329	-	1,329
Total Intragovernmental Liabilities	**$ 3,897**	**$ -**	**$ 3,897**
With the Public			
Accounts Payable	$ 11,631	$ -	$ 11,631
Unfunded Accrued Annual Leave	-	20,714	20,714
FECA Actuarial Liabilities	-	139	139
Employer Contributions and Payroll Taxes Payable	325	-	325
Deferred Lease Liabilities	-	15,489	15,489
Other Liabilities	4,060	-	4,060
Total With the Public Liabilities	**$ 16,016**	**$ 36,342**	**$ 52,358**
Total Liabilities	**$ 19,913**	**$ 36,342**	**$ 56,255**

Note 7. Other Liabilities

Current liabilities are amounts owed by a federal entity as the result of past transactions or events that are payable within the fiscal year following the reporting date. All Other Liabilities are considered current liabilities. Accrued funded payroll represents payroll expenses that were incurred prior to year-end but were not paid. Changes in the presentation in the current year in comparison to the prior year presentation are to conform to current reporting standards and requirements, such as changes to the statements or notes. For this reporting period, the Employer Benefit Contributions line was adjusted and is reflected in Note 6.

Other Liabilities as of September 30, 2023 and September 30, 2022 consist of the following (dollars in thousands):

	2023	2022
Intragovernmental Liabilities		
Benefit Program Contributions Payable	$ 1,361	$ 1,106
Employer Contributions and Payroll Taxes Payable	253	223
Total Intragovernmental Other Liabilities	**$ 1,614**	**$ 1,329**
With the Public		
Deferred Lease Liability	$ 12,619	$ 15,489
Accrued Funded Payroll	4,208	4,032
Employee Related Refunds Due	3	3
Capital Lease Liability	-	24
Total With the Public Other Liabilities	**$ 16,830**	**$ 19,548**

Note 8. Leases

Operating Leases

NON-FEDERAL LEASES:

400 7th Street SW – Constitution Center

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

FHFA OIG entered into an Occupancy Agreement (OA) with the General Services Administration (GSA) for its regional office spaces in Los Angeles, CA, Tampa, FL, Newark, NJ, Chicago, IL, St. Louis, MO, and Plano, TX. In these leases, FHFA OIG has the right to terminate the OA based on the availability of funds or with a four-month notice.

Future Payments Due for Non-Cancellable Operating Leases (dollars in thousands) consist of the following:

Future Payment Due	Land & Buildings		Totals	
	Federal	Non-Federal	Federal	Non-Federal
Fiscal Year 2024		$ 21,515		$ 21,515
Fiscal Year 2025		$ 21,946		$ 21,946
Fiscal Year 2026		$ 22,385		$ 22,385
Fiscal Year 2027		$ 7,518		$ 7,518
After 5 Years		$ -		$ -
Total Future Lease Payments		**$ 73,364**		**$ 73,364**

Capital Lease

FHFA entered into a non-federal capital lease for 28 copiers located at 400 7th Street SW - Constitution Center on February 1, 2018. The leased equipment is amortized on a straight line basis over five years. The original lease was fully funded at its inception. The original interest rate related to the lease obligation was 2.5 percent and the maturity date was January 31, 2023.There was no salvage value, and the copiers were expected to be returned to the vendor upon termination of the lease at the end of January 2023. Due to the global pandemic, the useful life of the equipment was extended, and a new copier lease was entered into for two years, through January 31, 2025. The new lease is fully funded for the two-year period. The equipment under the capital lease was fully amortized as of the period ending FY 2023. The contract extension is not considered a capital lease.

FHFA OIG does not have capital leases arrangements.

	2023	2022
Summary of Assets Under Capital Lease		
Machinery and Equipment (Copiers)	$ 274	$ 274
Accumulated Amortization	(274)	(250)
Total Net Value	**$ 0**	**$ 24**

Note 9. Commitments and Contingencies

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2023 and 2022.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the regulated entities. The regulated entities include Freddie Mac, Fannie Mae, the FHLBanks, and the Office of Finance, a joint office of the FHLBanks. FHFA tracks program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. Strategic Goals 1) Safety and Soundness; 2) Equitable Access to Affordable and Sustainable Housing; and 3) Responsibly Steward FHFA's Infrastructure, guide program offices to carry out FHFA's vision and mission. FHFA has an indirect program support element which is distributed proportionately to Strategic Goals 1 – 3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA OIG costs are allocated as part of FHFA's indirect program support element. Earned revenue is reported at the total level only. In mid-FY 2022, FHFA issued a new Strategic Plan which renamed Strategic Goal 2 to emphasize the focus on promoting equitable access to affordable housing, while Strategic Goals 1 and 3 remained relativity static in both name and anticipated outcomes. The costs by strategic goal presented in the table below and in the Statement of Net Cost is a comparative representation of FHFA's program costs between the two years.

FHFA's revenue was provided by the regulated entities through assessments. FHFA OIG's spending authority is a combination of unobligated funds carried forward from the previous year and the transfer of new assessments from FHFA for the current year. The combined total spending authority for the FHFA OIG in FY 2023, was $55.0 million and $49.9 million in FY 2022. FHFA OIG's gross expenses for FY 2023 and FY 2022 were $53.6 million and $49.6 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 entities for goods and/or services, such as payroll processing services received from the Department of Agriculture/Department of the Interior and imputed financing costs for post-retirement benefits with OPM. With the Public costs are costs FHFA incurs through contracting with the private sector for goods or services, payments for employee salaries, depreciation, annual leave, and deferred rent expenses. Intragovernmental revenue is funds collected from reimbursable agreements and investment interest. With the Public revenue is assessment funds collected from the regulated entities. and FOIA collections, when applicable. 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):

	2023	2022
Safety and Soundness		
Intragovernmental Costs	$ 37,209	$ 34,985
With the Public Costs	159,284	145,288
Gross Safety and Soundness Program Costs	**196,493**	**180,273**
Equitable Access to Affordable and Sustainable Housing		
Intragovernmental Costs	12,602	12,352
With the Public Costs	50,658	46,911
Gross Equitable Access to Affordable and Sustainable Housing Program Costs	**63,260**	**59,263**
Responsibly Steward FHFA's Infrastructure		
Intragovernmental Costs	25,902	19,473
With the Public Costs	100,347	79,345
Gross Responsibly Steward FHFA's Infrastructure Program Costs	**126,249**	**98,818**
Total Intragovernmental Costs	75,713	66,810
Total With the Public Costs	310,289	271,544
Gross Program Costs	386,002	338,354
Less: Total Intragovernmental Earned Revenue	(11,414)	(2,832)
Less: Total With the Public Earned Revenue	(386,099)	(317,495)
Total Net Cost of Operations	**$ (11,511)**	**$ 18,027**

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

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

	2023	2022
Unobligated Balance Brought Forward, October 1	$ 59,779	$ 85,455
Recoveries of Prior Year Obligations	14,707	13,165
Other Changes in Unobligated Balance	607	664
Unobligated Balance from Prior Year Budget Authority, Net	**$ 75,093**	**$ 99,284**

Note 12. Legal Arrangements Affecting Use of Unobligated Balances

HERA requires that any balance that remains unobligated at the end of the fiscal year, except for amounts assessed for contribution to FHFA's working capital fund, must be credited against the next year's assessment to the regulated entities. The Director also has the authority to retain prior year unobligated funds for conservatorship-related activities that were not anticipated during the budget process. As of September 30, 2023, and 2022, the unobligated balance was $77.1 million and $59.8 million, respectively. FHFA may retain the FY 2023 unobligated balance of $22.4 million for operating expenses, for the working capital fund, or for conservatorship/Enterprise-related expenses during FY 2024. FHFA retained the FY 2022 unobligated balance for conservatorship/Enterprise-related expenses during FY 2023 (See Note 2. Fund Balance With Treasury).

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

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). The FY 2025 President's Budget will include the actual budgetary execution information for FY 2023. The FY 2025 President's Budget is scheduled for publication in February 2024 and can be found at the OMB Website.[34] The FY 2024 President's Budget, with the "Actual" column completed for 2022, has been reconciled to the FY 2022 Statement of Budgetary Resources and there were no material differences (dollars in thousands):

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 467,127	$ 407,349	$ 318,739	$ 334,552
Rounding	(127)	(349)	(739)	(552)
Budget of the U.S. Government	467,000	407,000	318,000	334,000
Total Unreconciled Difference	**$ -**	**$ -**	**$ -**	**$ -**

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

Note 14. Undelivered Orders at the End of the Period

Undelivered Orders balance as of September 30, 2023 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 766	$ 5,401
Unpaid Undelivered Orders	3,384	56,954
Total Undelivered Orders	**$ 4,150**	**$ 62,355**

Undelivered Orders balance as of September 30, 2022 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 607	$ 5,594
Unpaid Undelivered Orders	4,053	48,019
Total Undelivered Orders	**$ 4,660**	**$ 53,613**

Note 15. Incidental Custodial Collections

FHFA's custodial collections primarily consist of fines and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the Agency nor material to the overall financial statements. FHFA's custodial collections are $607 for the year ended September 30, 2023. Custodial collections totaled $244 for the year ended September 30, 2022. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

Note 16. Budget and Accrual Reconciliation

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

For the Year Ended September 30, 2023	Intragovernmental		With the Public		Total	
Net (Income From)/Cost of Operations	**$**	**64,300**	**$**	**(75,811)**	**$**	**(11,511)**
Components of Net Cost Not Part of the Budgetary Outlays						
Property, Plant, and Equipment Depreciation Expense		-		(2,761)		(2,761)
Increase/(Decrease) in Assets:						
Accounts Receivable, Net		688		25		713
Securities and Investments		20		-		20
Advances and Prepayments		159		(193)		(34)
(Increase)/Decrease in Liabilities:						
Accounts Payable		(620)		7		(613)
Advances from Others and Deferred Revenue		(622)		(3)		(625)
Federal Employee Benefits Payable, Net		-		(1,242)		(1,242)
Other Liabilities, Net		(184)		2,719		2,535
Financing Sources:						
Imputed Cost		(13,110)				(13,110)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$**	**(13,669)**	**$**	**(1,448)**	**$**	**(15,117)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost						
Acquisition of Capital Assets		4		727		731
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$**	**4**	**$**	**727**	**$**	**731**
Miscellaneous Items						
Distributed Offsetting Receipts		(9,933)		(386,101)		(396,034)
Custodial/Non-Exchange Revenue		1		(1)		-
Appropriated Receipts for Trust/Special Funds		9,933		386,101		396,034
Total Other Reconciling Items	**$**	**1**	**$**	**(1)**	**$**	**-**
Total Net Outlays (Calculated Total)	**$**	**50,636**	**$**	**(76,533)**	**$**	**(25,897)**
Budgetary Agency Outlays, Net						
Agency Outlays, Net					**$**	**(25,897)**

For the Year Ended September 30, 2022	Intragovernmental	With the Public	Total
Net (Income From)/Cost of Operations	**$ 63,978**	**$ (45,951)**	**$ 18,027**
Components of Net Cost Not Part of the Budgetary Outlays			
Property, Plant, and Equipment Depreciation Expense	-	(2,806)	(2,806)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	118	(2)	116
Advances and Prepayments	(48)	3,433	3,385
Other Assets	-	-	-
(Increase)/Decrease in Liabilities:			
Accounts Payable	(166)	(3,579)	(3,745)
Advances from Others and Deferred Revenue	3	-	3
Federal Employee Benefits Payable, Net	-	243	243
Other Liabilities, Net	1,166	6,477	7,643
Financing Sources:			
Imputed Cost	(7,899)		(7,899)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (6,826)**	**$ 3,766**	**$ (3,060)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	632	215	847
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 632**	**$ 215**	**$ 847**
Miscellaneous Items			
Distributed Offsetting Receipts	(1,254)	(317,485)	(318,739)
Non-Entity Activity	-	-	-
Appropriated Receipts for Trust/Special Funds	1,254	317,485	318,739
Total Other Reconciling Items	**$ -**	**$ -**	**$ -**
Total Net Outlays (Calculated Total)	**$ 57,784**	**$ (41,970)**	**$ 15,814**
Budgetary Agency Outlays, Net			
Agency Outlays, Net			**$ 15,814**

Other Information

AUDITS AND EVALUATIONS

Every year, the FHFA receives and responds to numerous performance audits, assessments, and evaluations concerning the effectiveness and efficiency of projects, policies, and programs. The FHFA OIG conducts performance audits, compliance reviews, and evaluations of Agency systems and programs. The GAO conducts an annual financial statements audit of FHFA and periodically conducts other assessments or reviews of the Agency. OIG also issues an annual assessment of FHFA's Management and Performance Challenges, presented on pages 110-123.

Table 20: Audits and Evaluations

FHFA OIG REPORTS			
1	Deficiencies in FHFA's Travel Program From April 1, 2022, Through March 31, 2023 Management Advisory	OIG-2023-001	2023-09-28
2	Risk Assessment of FHFA's Charge Card Programs April 1, 2022 – March 31, 2023	OIG-RA-2023-001	2023-09-28
3	DBR Conducted Effective Oversight of FHLBanks' Employee Expense Reimbursement Processes But Lacked Documented Examination Guidance	AUD-2023-009	2023-09-28
4	FHFA Effectively Blocked Phishing Emails, But Requires Improvement in Managing Vulnerabilities on Its Public Websites	AUD-2023-008	2023-09-27
5	DBR Adapted the Scope of Its Federal Home Loan Bank Supervisory Activities in 2023 in Response to Market Disruptions	EVL-2023-004	2023-09-21
6	People Risk at FHFA's Regulated Entities	WPR-2023-003	2023-09-21
7	FHFA Performed Active Oversight and Made Efforts to Ensure Fannie Mae's Compliance with Its Directions to Improve Audit Committee Operations	COM-2023-007	2023-09-06
8	DER Implemented Controls to Ensure that the Enterprises and CSS Remediated Adverse Examination Findings Within FHFA Determined Reasonable Timeframes	AUD-2023-007	2023-09-06
9	FHFA Did Not Effectively Implement Records Management Training Controls for Onboarding and Offboarding Personnel	COM-2023-006	2023-08-23
10	Audit of the Federal Housing Finance Agency's Privacy Program Fiscal Year 2023	AUD-2023-006	2023-08-23
11	FHFA Has Initiatives to Advance Equity and Support for Underserved Communities, but Tracking and Documentation Need Improvement	AUD-2023-005	2023-07-26
12	Audit of the Federal Housing Finance Agency's Information Security Programs and Practices Fiscal Year 2023 Audit	AUD-2023-004	2023-07-26
13	FHFA Did Not Effectively Implement Controls Intended to Ensure the Integrity of Its Employee Transportation Benefits Program	COM-2023-005	2023-06-21
14	FHFA Completed Examination Work Sufficient to Determine Whether the Enterprises' Credit Default Models Met Supervisory Expectations	EVL-2023-003	2023-04-19
15	An Overview of the Federal Home Loan Bank System	WPR-2023-002	2023-03-31
16	FHFA Followed Its Guidance When Making Conservatorship Decisions But Needs to Improve Retention of Decision Documentation and Update the Conservatorship Decision Policy and Procedures	AUD-2023-003	2023-03-29

Table 20: Audits and Evaluations			
17	DBR Adhered to Its Work Program Minimum Frequency Guidelines for Annual Examinations	COM-2023-004	2023-03-22
18	FHFA Examinations of CSS Include Review of the Board of Managers but Supervision Has a Key Person Dependency and Outdated Guidance	EVL-2023-002	2023-03-20
19	FHFA Did Not Fully Implement Select Security Controls Over One of Its Cloud Systems as Required by NIST and FHFA Standards and Guidelines	AUD-2023-002	2023-03-08
20	The Division of Federal Home Loan Bank Regulation Followed Its Guidance in Performing Annual Examinations of Each Federal Home Loan Bank's Affordable Housing Program but the AHP Examination Planning Processes Require Improvement	AUD-2023-001	2023-02-09
21	An Overview of Common Securitization Solutions, LLC	WPR-2023-001	2023-02-09
22	FHFA Secured Electronic Media It Designated for Disposal, But Did Not Inventory Items Consistently or Reconcile Inventory Discrepancies	COM-2023-003	2023-02-02
23	FHFA Adhered to Its Corrective Actions for Hiring Pathways Interns	COM-2023-002	2023-01-26
24	The Company That Issues and Administers the Enterprises' Mortgage-Backed Securities Adhered to FHFA's Cybersecurity Incident Reporting Standards	COM-2023-001	2023-01-05
25	FHFA Could Further Combat Appraisal Bias by Ensuring That Complaints Are Filed with State Authorities and Ensuring the Enterprises Use Appraisals That Comply with Federal Law	EVL-2023-001	2022-12-20
GAO REPORTS			
1	Manufactured Housing: Further HUD Action is Needed to Increase Available Loan Products	GAO-23-105615	2023-09-26
2	Financial Stability Oversight Council: Assessing Effectiveness Could Enhance Response to Systemic Risks	GAO-23-105708	2023-09-14
3	Affordable Housing: Improvements Needed in HUD's Oversight of the Housing Trust Fund Program	GAO-23-105370	08-08-2023
4	Federal Housing Finance Agency: Enterprise Duty To Serve Underserved Markets--Colonia Census Tract Amendments	B-335244	2023-05-04
5	Management Report: Federal Housing Finance Agency Should Improve Controls over Personnel and Payroll Information	GAO-23-106487	2023-04-19
6	Financial Audit: FY 2022 and FY 2021 Consolidated Financial Statements of the U.S. Government	GAO-23-105837	2023-02-16
7	Federal Housing Finance Agency: Prior Approval for Enterprise Products	B-334889	2023-01-06
8	Federal Housing Finance Agency: 2023–2024 Multifamily Enterprise Housing Goals	B-334887	2023-01-06
9	Financial Audit: Federal Housing Finance Agency's FY 2022 and FY 2021 Financial Statements	GAO-23-105910	2022-11-15

MANAGEMENT REPORT ON FINAL ACTIONS

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports. Tables 21, 22, and 23 provide information on final action taken by management on audit reports for Fiscal Year (FY) 2023.

Table 21: Management Report on Final Action on Audits with Disallowed Costs for FY 2023

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

Table 22: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2023

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

Table 23: Audit Reports Without Final Actions but with Management Decisions Over One Year Old for FY 2023		
Report No. and Issue Date	**Recommendation**	**Management Action**
FHFA Could Enhance the Efficiency of the Agency's Oversight of Enterprise Executive Compensation by Ensuring Sufficient Human Capital Resources and Updating Procedures (EVL-2022-003), September 27, 2022	Recommendation 3	Actions are expected to be completed by November 17, 2023

OFFICE OF INSPECTOR GENERAL MANAGEMENT AND PERFORMANCE CHALLENGES

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

October 6, 2023

TO: Sandra L. Thompson, Director, FHFA

FROM: Brian M. Tomney, Inspector General /s/

SUBJECT: Fiscal Year 2024 Management and Performance Challenges

This memorandum, issued pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531), provides OIG's identification of the most serious management and performance challenges facing the Agency.

The Housing and Economic Recovery Act of 2008 created FHFA, which is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae and Freddie Mac, collectively the Enterprises, and the 11 Federal Home Loan Banks (FHLBanks) (collectively, the regulated entities).[1] In addition, since September 2008, FHFA has served as the Enterprises' conservator.

This memorandum is based on OIG work and a review of public and non-public FHFA and regulated entity sources, along with other public information. For fiscal year 2024, we have identified the following management and performance challenges facing FHFA:

- Continue Strengthening Supervision of the Regulated Entities
- Continue Stewardship of the Enterprise Conservatorships
- Respond to Market Volatility and Change
- Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA
- Ensure Oversight of Counterparty Risk, Third-party Risk, and Fourth-party Risk at the Regulated Entities
- Strengthen Oversight of the Regulated Entities' Model Risk

[1] The Office of Finance and Common Securitization Solutions, LLC (CSS) are not separate "regulated entities" as the term is defined by statute (see 12 U.S.C. 4502(20)). Rather, the Office of Finance is a part of the FHLBank System, and CSS is an affiliate of the Enterprises. However, for convenience, references to the "regulated entities" in this document should be read to also apply to the Office of Finance and CSS, unless otherwise noted.

- Oversee People Risk at the Regulated Entities and Enhance FHFA's Human Capital Management
- Ensure Resiliency at the Regulated Entities and at FHFA

Many of these challenges reiterate themes we identified in prior years. However, continued inclusion of a challenge area does not necessarily indicate a lack of progress by FHFA; rather, it indicates that a particular challenge persists. In some instances, for example, a challenge is simply inherent to the Agency's and the regulated entities' missions. This year, in addition to highlighting the persistent challenges facing FHFA, we highlight a new challenge: FHFA's response to market volatility and change.

We perform our mission primarily through audits, evaluations, compliance reviews, and investigative work. We use a risk-based approach, focusing our FHFA-OIG FY 2024 Annual Plan on the most significant risks facing the Agency. Specific information on our ongoing and anticipated oversight work is available in that plan.

Challenge: Continue Strengthening Supervision of the Regulated Entities

The regulated entities serve a vital function by providing liquidity and stability to the secondary mortgage market, and they manage trillions in assets. FHFA is charged with supervising them and ensuring they operate in a safe and sound manner. For these reasons, we have previously identified supervision as a longstanding and inherent challenge for FHFA.

In our prior work over numerous years, including in the FY2022 management and performance challenges memorandum, we identified several recurring challenges for the supervision program. For example, personnel challenges, both in terms of maintaining stable leadership and a sufficient cadre of skilled examiners, have been persistent. The Agency also faces continued challenges in supervising the Enterprises to ensure they meet regulatory capital requirements and in managing emerging risks associated with technology (addressed more fully in the cybersecurity and information technology challenge, below).

Our recent work has recognized FHFA's progress in strengthening its supervision program. For example, we saw that the Division of Enterprise Regulation (DER) implemented controls to ensure that the Enterprises and CSS remediate adverse examination findings within reasonable timeframes (as determined by FHFA). We also found that the Division of Federal Home Loan Bank Regulation (DBR) adhered to its work program minimum frequency guidelines for annual examinations and followed its guidance in performing annual examinations of each FHLBank's Affordable Housing Program (AHP).

We also identified areas for improvement. For example, we found certain areas of DBR's AHP examination planning process that, if not addressed, could increase the risk that issues with the FHLBanks' administration of their AHPs would not be identified and corrected in a timely manner. First, DBR did not plan or perform an in-depth review of a significant area within one of the higher risk AHP programs for more than 10 years. DBR officials told us that this in-depth

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review was delayed awaiting the amendment of an AHP regulation, which took longer than expected, and was not fully applied until 2021. Further, we determined that DBR had not performed an AHP workforce planning analysis since 2013 to assess current and future examination needs and determine the staffing levels required to provide adequate examination coverage. This was because DBR's planning process for AHP examinations does not require periodic workforce planning. Finally, DBR's publicly available AHP examination module is out of date. Internal updates to the module have not been subject to the level of structure, collaboration, and review required by FHFA policy due to a lack of needed collaboration between DBR offices. We also identified that the CSS examination module had not been updated since it was issued in 2016 and it is materially inaccurate. Instead of using that module for examination planning, the examiner-in-charge relied on another module focused on the Enterprises that made no mention of CSS specifically. FHFA agreed with our recommendations on these issues and is in the process of addressing these areas in need of improvement.

As noted above, maintaining consistent leadership is a persistent challenge in FHFA's supervisory role, and FHFA continues to experience leadership changes within its supervisory programs. Additionally, DER has not yet fully addressed our critical recommendations regarding workforce planning. Although FHFA has provided us with a high-level description of identified gaps and an action plan, the Agency has not provided the supporting analysis for the identified gaps or project plans or milestones for the workforce action plan. The Agency committed to develop project plans for a multi-year workforce strategy, and full implementation of such a strategy remains an important component of strengthening the supervision program.

Strong supervision is especially important for the Enterprises because they have a combined adjusted total risk-based capital shortfall of $421 billion. FHFA must supervise them to ensure that they work to meet regulatory capital requirements.

While FHFA has made progress in enhancing its supervision program, the longstanding nature and scope of the Agency's supervision challenge necessitates continued attention to these issues.

Select OIG Reports Issued During FY2023 on Supervision Matters:

DER Implemented Controls to Ensure that the Enterprises and CSS Remediated Adverse Examination Findings Within FHFA Determined Reasonable Timeframes, AUD-2023-007, September 6, 2023

FHFA Completed Examination Work Sufficient to Determine Whether the Enterprises' Credit Default Models Met Supervisory Expectations, EVL-2023-003, April 19, 2023

DBR Adhered to Its Work Program Minimum Frequency Guidelines for Annual Examinations, COM-2023-004, March 22, 2023

FHFA Examinations of CSS Include Review of the Board of Managers but Supervision Has a Key Person Dependency and Outdated Guidance, EVL-2023-002, March 20, 2023

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The Division of Federal Home Loan Bank Regulation Followed Its Guidance in Performing Annual Examinations of Each Federal Home Loan Bank's Affordable Housing Program but the AHP Examination Planning Processes Require Improvement, AUD-2023-001, February 9, 2023

Challenge: Continue Stewardship of the Enterprise Conservatorships

As conservator, FHFA is vested with express authority under the Housing and Economic Recovery Act of 2008 to operate the Enterprises, which includes exercising broad authority over trillions of dollars in assets and billions of dollars in annual revenue. In this role, FHFA makes business and policy decisions that can influence the entire mortgage finance industry. Given the taxpayers' sizeable investment in the Enterprises, the conservatorships' unknown duration, the Enterprises' critical role in the secondary mortgage market, and the necessity to sustain their own future profitability, OIG determined that FHFA's administration of the conservatorships remains a critical challenge.

In its 2022 Scorecard, FHFA defined its first conservatorship goal as promoting sustainable and equitable access to affordable housing. In June 2022, the Enterprises released Equitable Housing Finance Plans for 2022-2024. According to FHFA, the plans are designed to promote the Enterprises' safety and soundness and to foster housing finance markets that provide equitable access to affordable and sustainable housing. They are also intended to identify and address barriers experienced by renters, aspiring homeowners, and current homeowners in underserved communities. While the activities are focused on addressing barriers and using technology to identify ways to responsibly serve more borrowers, FHFA must balance meeting program goals while simultaneously ensuring the Enterprises' safety and soundness.

To further this conservatorship goal, FHFA has directed the Enterprises to continue work related to the appraisal policy and process modernization initiative. That work includes engaging with industry stakeholders, such as appraisers, software providers, insurance companies, appraisal management companies, inspection companies, mortgage insurers, and industry trade groups. Considering input from multiple stakeholders and technologies can support FHFA in meeting its goals of improving data quality, reducing potential appraisal bias, and supporting effective risk management and process efficiency, yet accounting for the various viewpoints and information can also present challenges.

Another challenge for FHFA is providing sufficient oversight of the Enterprises' use of appraisals to ensure those appraisals do not improperly consider bases that are prohibited by federal fair lending law. FHFA's independent review of a sample of appraisal reports concluded that valuation bias persists in housing finance in America. In its review, the Agency identified several overt references to race, color, and other prohibited bases in appraisals. During our evaluation, FHFA told us they made 17 referrals to the U.S. Department of Housing and Urban Development and made appraisal information available to the U.S. Department of Justice. The Agency also told us it shared information with the Consumer Financial Protection Bureau. Although the Agency had not taken the additional step of filing complaints with the state licensing authorities responsible for investigating complaints against appraisers, in April 2023

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it required the Enterprises to submit complaints to those authorities. Working to identify and address appraisal bias will continue to be an important challenge facing FHFA and the Enterprises.

Other recent OIG work indicates that while FHFA has undertaken initiatives to advance equity and support for underserved communities, its documentation processes could be improved. In our review, FHFA identified several relevant initiatives, and our review concluded that the four initiatives we studied generally complied with their stated purposes. However, we identified weaknesses in the Office of Fair Lending's fair lending assessment tracking and documentation processes and made recommendations for improvements.

We identified recommended improvements to documentation practices in other areas as well. For example, a recent audit concluded that while FHFA made conservatorship decisions in accordance with its conservatorship decision policy and procedures and performed conservatorship monitoring and surveillance, in some instances FHFA's document management and retention practices adversely impacted FHFA's ability to demonstrate its rationale for certain decisions. We also found that FHFA's current policies and procedures increase the risk that conservatorship decision activity would not be conducted in accordance with FHFA management's intentions.

Select OIG Reports Issued During FY2023 on Conservatorship Matters:

FHFA Performed Active Oversight and Made Efforts to Ensure Fannie Mae's Compliance with Its Directions to Improve Audit Committee Operations, COM-2023-007, September 6, 2023

FHFA Has Initiatives to Advance Equity and Support for Underserved Communities, but Tracking and Documentation Need Improvement, AUD-2023-005, July 26, 2023

FHFA Followed Its Guidance When Making Conservatorship Decisions But Needs to Improve Retention of Decision Documentation and Update the Conservatorship Decision Policy and Procedures, AUD-2023-003, March 29, 2023

FHFA Could Further Combat Appraisal Bias by Ensuring That Complaints Are Filed with State Authorities and Ensuring the Enterprises Use Appraisals That Comply with Federal Law, EVL-2023-001, December 20, 2022

Challenge: Respond to Market Volatility and Change

Over the past few years, the housing market has shifted significantly. High interest rates, limited home supply that continues to keep prices elevated, and high inflation pose challenges to the housing market. Considering this volatility, FHFA must continue to provide leadership in responding to today's market and preparing for the effects of future changes on the regulated entities.

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High interest rates directly influence the regulated entities' mortgage acquisitions. The Enterprises' financial performance, as measured by earnings and mortgage purchase activities in 2022, was down year-over-year. Moreover, rising interest rates significantly altered the Enterprises' mortgage acquisitions from lower-risk refinance loans to purchase loans whose attributes, such as generally higher loan-to-value ratios and lower credit scores, are associated with higher credit risk. Temporary interest rate buydowns and other lender strategies to assist borrowers with purchasing homes in this high interest rate environment require the regulated entities to monitor those loans' characteristics to accurately assess risk.

Market changes – in addition to providing their own challenges – also make some of the other challenges identified in this memorandum more difficult. As just one example, both FHLBanks and the Enterprises rely on models to conduct their business and to make necessary decisions. When there are substantial changes in the market, existing models may rely on data generated in other economic environments, meaning they may not currently perform as expected. In this way, market volatility also contributes to challenges related to model risk.

Changes in the nation's economic situation can also have direct effects on the regulated entities. For example, when a major credit rating agency downgraded the nation's credit rating, it triggered a downgrade in certain Enterprise credit ratings.

FHFA must continue to adapt its oversight of the regulated entities to respond to market volatility and change. In recent work, we found that the Agency had done so; examiners adjusted their FHLBank examination planning in response to the heightened risk environment resulting from the March 2023 market disruption. In other work, we saw that the Enterprises offered forbearance in response to many homeowners' difficulties in paying their mortgages during the COVID-19 pandemic. We found that during a time of fluid circumstances and evolving data, the Agency measured, monitored, and identified ways to mitigate the Enterprises' forbearance-related costs.

FHFA must continue to ensure the regulated entities are well positioned to respond to market volatility and change. It is critical that the Agency, too, adjusts its oversight to address the effect of market factors on the regulated entities.

Select OIG Report Issued During FY2023 Related to Responding to Market Volatility and Change:

DBR Adapted the Scope of Its Federal Home Loan Bank Supervisory Activities in 2023 in Response to Market Disruptions, EVL-2023-004, September 21, 2023

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

FHFA's regulated entities comprise central components of the U.S. financial system and electronically connect with other large financial institutions. As part of their business processes, they receive, store, and transmit highly sensitive private information about borrowers and businesses, including financial data and personally identifiable information. Protecting this information is critically important and reflects an ongoing challenge to FHFA and the regulated entities. Unfortunately, but perhaps not unexpectedly, both the Enterprises and the FHLBanks have been the targets of cyberattacks.

The threat landscape in this area is ever-changing, requiring constant vigilance and monitoring. FHFA has engaged in oversight of cybersecurity at the regulated entities and assessed that cybersecurity continues to be a top operational risk for the Enterprises and CSS. Similarly, the Agency assessed elevated risk at the FHLBanks because of ongoing information technology initiatives at many FHLBanks, and examiners identified areas that exhibited or could exhibit unacceptable operational risk in information security management.

FHFA's own assessment of cybersecurity risk is underscored by a recent report from the Financial Stability Oversight Council. It reported that a destabilizing cybersecurity incident could potentially threaten the stability of the U.S. financial system by disrupting a key financial service or utility, causing a loss of confidence among a broad set of customers or market participants, or compromising the integrity of critical data.[2] Considering the regulated entities' footprint and role in the financial markets, it is clear that managing this risk is critical for the regulated entities and important for FHFA to oversee.

Because FHFA's management of these cybersecurity-related challenges remains important, we regularly assess how FHFA oversees cybersecurity risk at the regulated entities. Previously, in a 2019 evaluation, we found that DER did not collect and review consistent cybersecurity information necessary to oversee risks to the Enterprises. Consequently, FHFA lacked useful data that could help it oversee the Enterprises' controls against cyberattacks and associated risks. Subsequently, the Agency issued an advisory bulletin regarding reporting and notification to FHFA of cybersecurity incidents. Recent reviews demonstrate that FHFA and the Enterprises have made progress in this area, finding that the Enterprises generally adhered to the reporting format and timeliness standards and CSS adhered to the standard for which it had reportable information.

In addition to FHFA's oversight of the regulated entities in this area, it must also ensure the effectiveness of its own information security program. As conservator of and supervisor for the Enterprises, and supervisor for the FHLBanks, FHFA collects and manages sensitive information, including personally identifiable information, which it must safeguard from unauthorized access or disclosure. An independent public accounting firm under contract with our office audited FHFA's 2023 privacy program and concluded that FHFA had generally implemented effective privacy and data protection policies and procedures in accordance with law, regulation, and policy. However, the Agency did not fully achieve implementation of certain privacy requirements.

In addition to the privacy audit, we perform an annual audit pursuant to the Federal Information Security Modernization Act of 2014 (FISMA) to ensure FHFA's compliance with information

[2] See Financial Stability Oversight Council's 2022 Annual Report. The FHFA Director is a member of the Council and voted in favor of the 2022 Annual Report.

security program standards and help FHFA strengthen its network protections. For FY 2023, an independent public accounting firm under contract with OIG determined that collectively the Agency's information security programs and practices were effective and complied with FISMA and related information security policies and procedures, standards, and guidelines. Although the Agency implemented effective information security programs and practices, a subset of selected controls was not fully effective.

Select OIG Reports Issued During FY2023 on Oversight of the Regulated Entities' Cybersecurity and FHFA's Internal Controls Over Security:

Audit of the Federal Housing Finance Agency's Privacy Program Fiscal Year 2023, AUD-2023-006, August 23, 2023

Audit of the Federal Housing Finance Agency's Information Security Programs and Practices Fiscal Year 2023, AUD-2023-004, July 26, 2023

FHFA Did Not Fully Implement Select Security Controls Over One of Its Cloud Systems as Required by NIST and FHFA Standards and Guidelines, AUD-2023-002, March 8, 2023

The Company That Issues and Administers the Enterprises' Mortgage-Backed Securities Adhered to FHFA's Cybersecurity Incident Reporting Standards, COM-2023-001, January 5, 2023

Challenge: Ensure Oversight of Counterparty Risk, Third-party Risk, and Fourth-party Risk at the Regulated Entities

The regulated entities rely on counterparties for business-critical matters. The Enterprises' counterparties include entities that carry out core functions, such as sellers, servicers, mortgage insurers, custodial depository institutions, and reinsurers. The FHLBanks' primary exposure to institutional counterparty credit risk stems from unsecured money market transactions with domestic and foreign counterparties, derivative counterparties, and mortgage servicers that service loans the FHLBanks purchased from members or housing associates.

This broad reliance on counterparties requires the regulated entities to identify and mitigate related risks. Counterparty credit risk is the risk that a counterparty either defaults on amounts owed or deteriorates in creditworthiness before a transaction settles, or both, and such risk can increase when a regulated entity engages with a limited number of counterparties. FHFA recognizes that counterparty credit risk is significant. Recent economic changes have increased stress on many counterparties, particularly nonbank seller/servicers, which do not necessarily have the same financial strength or operational capacity and regulatory oversight as traditional banks. In addition, reliance on nonbanks is increasing. According to FHFA, the Enterprises continue to monitor counterparty risks, particularly in light of declining earnings among many of their sellers and servicers throughout 2022. Nevertheless, FHFA continues to have supervisory concerns, and oversight of counterparty risk remains a challenge during this reporting cycle.

The regulated entities also rely on third parties to provide numerous products and services. For example, third parties provide critical operational support and information technology services. As with counterparties, this third-party reliance comes with risk, namely that the third party will not deliver the product or service as expected. The regulated entities' third parties rely, in turn, on their own third parties; these "third parties' third parties" are considered to be fourth parties to the regulated entities. As we discussed in a recent white paper, managing fourth-party risk can be challenging for a regulated entity due to limited direct oversight of the fourth parties. Typically, the regulated entities do not have contracts with their fourth parties. Instead, the third parties have the direct contractual relationship with the fourth parties.

Third-party relationships can pose risks to other areas. For example, two recent audits revealed information risk heightened by third-party related matters. In one, we found that FHFA did not fully implement select security controls over its third-party cloud computing system as required by National Institute of Standards and Technology and FHFA standards and guidelines. In another, we found that FHFA did not configure all its publicly accessible websites and web services with a secured connection, as required, because they were managed by a third-party vendor and not under the Agency's control. In public reporting FHFA indicates that, in addition to posing information security risks, third-party relationships can also pose risks related to resiliency and safety and soundness issues.

The regulated entities are exposed to fraud risk through the activities of third parties, including borrowers, loan originators, mortgage brokers, sellers, servicers, attorneys, appraisers, and others. OIG's publicly reportable criminal investigations include alleged fraud by different types of counterparties, reinforcing the need to ensure strong controls to prevent fraud.

Recently, FHFA has taken action in response to our prior counterparty-related work. For instance, FHFA made progress in addressing our recommendations on supervisory protocols for sharing critical information, such as counterparty performance issues.[3] The Agency issued new guidance and trained the relevant employees on how to appropriately share counterparty issues that affect the Enterprises.[4] As another example, we previously reported on challenges with FHFA's management of its suspended counterparty program, and FHFA has proposed amending its regulation.[5] Specifically, the Agency proposed to expand its categories of covered misconduct that serve as a basis for suspension under the program and eliminate the requirement that any final suspension order based on an administrative sanction be preceded by a proposed suspension order. The final rule has not yet been issued.

Ultimately, though, the Agency is challenged to oversee the regulated entities' counterparty and third-party risk management, because its oversight ability is limited. Unlike most other federal

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[3] An examination team may identify supervisory concerns through examination activity or from information received from other internal [FHFA] or external sources relative to the performance or condition of a counterparty that transacts business with both Enterprises.

[4] The audit report identified that DBR already followed information-sharing practices.

[5] FHFA, Suspended Counterparty Program, 88 FR 47077 (July 21, 2023).

safety and soundness supervisors, FHFA lacks examination and enforcement authority for the counterparties and third parties.

Select FY2023 Results from OIG Criminal Investigations on Counterparty, Third-Party, and Fourth-Party Matters:

Nomura Securities International Agrees to Pay $35 Million Penalty Stemming from Its Participation in Securities Fraud Scheme, Press Release, August 22, 2023

UBS Agrees to Pay $1.435 Billion for Fraud in the Sale of Residential Mortgage-Backed Securities, Press Release, August 14, 2023

Pinellas County Man Sentenced for Wire and Bank Fraud Offenses, Press Release, July 17, 2023

Osceola County Mortgage Loan Officer Charged with Bank Fraud and Aggravated Identity Theft, Press Release, April 12, 2023

Challenge: Strengthen Oversight of the Regulated Entities' Model Risk

Models explain relationships by processing data into estimates. The Enterprises rely heavily on models to measure and monitor risk exposures and to inform and support business decisions. For example, they use models extensively for collateral valuation, home price forecasting, mortgage cash flow analysis, financial reporting, and stress testing, among other uses. The FHLBanks also use models in making business decisions and for financial reporting. They each make significant use of models to manage, measure, and monitor risks, as well as to determine the fair value of financial instruments when independent price quotations are not available.

The use of models naturally injects model risk, which FHFA defines as "the risk of loss resulting from model errors or the incorrect use or application of model output." FHFA has observed that although models are often essential, reliance on inaccurate or inappropriate models may lead to poor or costly decisions. For example, a model could be based on inappropriate methodology or data, or it might not receive necessary updates; users may lack understanding of model limitations; or adjustments, known as "overlays," could be inappropriately applied to model results. Further, many of the regulated entities' models interconnect, so a problem or error in one model can spread to other models. Because of the entities' heavy reliance on models and the potential results if they are inaccurate, they present a challenge for which FHFA oversight and management is crucial.

The Agency has identified model concerns at the regulated entities. FHFA examiners found that both Enterprises need to strengthen controls related to models. Examiners similarly identified areas for improvement in risk management practices at the FHLBanks, including related to modeling. Without adequate controls over complex models, errors might occur. For example, in 2023 Fannie Mae had to restate its required financial stress test results for multiple years after discovering modeling errors.

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We recently assessed whether DER completed sufficient examination work to conclude whether certain Enterprise credit default models met FHFA's supervisory expectations. We found that FHFA examiners had completed work sufficient to make such a determination. DER identified practices that prompted it to issue adverse examination findings to Enterprise management, but it did not conclude that the criticized practices rose to the level of unsafe or unsound practices.

The Agency faces several challenges in adequately overseeing model risk at the regulated entities. Unprecedented events, such as the COVID-19 pandemic and changing economic conditions, challenge existing model assumptions and model performance. For instance, FHFA considers the Enterprises' model risk as elevated in part because many models rely on data generated in other economic environments.

In addition, model technology continues to evolve and increase in complexity. Advances in artificial intelligence and machine learning continue to expand how the Agency must oversee the regulated entities' models, including how such technology avoids unfair outcomes. Moreover, the Agency stated that it formerly considered the FHLBanks and the Office of Finance as "less complex" entities based on their use of models; however, FHFA notes that the FHLBanks' modeling activities have become more complex and pervasive in their operations. FHFA has recently taken steps to enhance its model-related guidance by releasing supplemental guidance to its model risk management guidance advisory bulletin. It is intended to address gaps in the advisory bulletin arising from changes in technology and model complexity.

To ensure it can supervise the regulated entities' high-risk models, FHFA must have a sufficient examination corps with the relevant modeling skills. The Agency's execution of our long-standing recommendation to implement a workforce plan that addresses the examiner capacity and competencies required to meet supervisory needs will further its efforts to ensure the regulated entities operate their models safely and soundly.

Select OIG Report Issued During FY2023 on FHFA Oversight of the Regulated Entities' Model Risk:

FHFA Completed Examination Work Sufficient to Determine Whether the Enterprises' Credit Default Models Met Supervisory Expectations, EVL-2023-003, April 19, 2023

Challenge: Oversee People Risk at the Regulated Entities and Enhance FHFA's Human Capital Management

To accomplish their missions, FHFA and the regulated entities must maintain a skilled workforce. People risk, or human capital risk, can occur when an organization is unable to attract, develop, and retain a highly qualified, diverse workforce with specialized skills. This risk can jeopardize the institution's ability to meet its business objectives. People risk manifests across a range of human capital related issues, such as an organization not planning for the effect of retirements or failing to address pervasive critical skill gaps.

FHFA's annual examination and rating for each regulated entity covers operational risk, which includes people risk. Examiners have noted concerns with people risk and flagged it as a heightened risk area with challenges.

Certain factors affecting human capital are outside of the regulated entities' direct control. Attrition at the regulated entities is largely correlated to general labor market conditions, and the regulated entities experienced high turnover during the pandemic's tight labor market. In addition, increasing competition from financial services and technology companies for information technology and modeling skills increased turnover, especially at the Enterprises. FHFA must ensure the regulated entities navigate these external forces while maintaining the human capital required to achieve their missions.

In addition to ensuring strong oversight of the regulated entities' people risk, FHFA must strengthen its own human capital management. We previously found that FHFA had multiple deficiencies in its hiring practices and its housing finance examiner commissioning program. Concerning its hiring, FHFA used incomplete and inaccurate monthly staffing plans and lacked sufficient policies, procedures, and training, among other issues. The Agency has addressed some aspects of our recommendations related to its hiring process, especially for mission critical occupations, such as examiners. For instance, FHFA documented and streamlined its hiring process, and it also implemented a tracking mechanism to report accurately on hiring timelines. With respect to the housing finance examiner commissioning program, the Agency issued a new internal guidance to identify training opportunities and monitor examiners' progress in completing the program.

Nevertheless, we have long-standing recommendations for the Agency to improve its human capital management. FHFA has not resolved its workforce planning deficiencies, particularly as they relate to its examination function. FHFA has initiated reviews into its examination resources and competencies; however, the Agency has not fully addressed identified gaps so it can implement a systematic workforce plan.

Select OIG Reports Issued During FY2023 on FHFA's Oversight of the Regulated Entities' People Risk and FHFA's Human Capital Management:

People Risk at FHFA's Regulated Entities, WPR-2023-003, September 21, 2023

FHFA Examinations of CSS Include Review of the Board of Managers but Supervision Has a Key Person Dependency and Outdated Guidance, EVL-2023-002, March 20, 2023

FHFA Adhered to Its Corrective Actions for Hiring Pathways Interns, COM-2023-002, January 26, 2023

Challenge: Ensure Resiliency at the Regulated Entities and at FHFA

As noted, the regulated entities perform important roles in providing a stable source of funding for housing finance. FHFA recognizes that "[u]ncontrolled events, such as natural disasters,

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pandemics, and cyberattacks, can threaten the regulated entities' ability to perform mission critical operations, such as providing liquidity and access to credit in the mortgage market." As FHFA officials have explained, should the Enterprises be unable to play their role, there could be a huge immediate impact on the mortgage finance industry and mortgage liquidity gridlock, with disruptions having widespread impacts on the financial services industry, homeowners, and investors.

FHFA defines business resiliency management to include the ability to minimize the impact of disruptions and maintain business operations at predefined levels. It includes the ability to withstand and recover from deliberate attacks, accidents, or naturally occurring threats or incidents. The regulated entities' resiliency is particularly vital given their critical mission and importance to financial markets.

Resiliency for the regulated entities is complex and multifaceted. They require planned responses for disruptions related to people, operations and processes, equipment and facilities, and information technology and data across a wide array of hazards and risk scenarios in multiple geographic locations. Additionally, their resiliency programs must assess and ensure the resiliency of critical third parties because they rely on thousands of third parties, including for key components of their business operations. As examples of reliance that must be considered, the Enterprises report that a failure in CSS' information systems could prevent the issuance of new mortgage-backed securities (MBS), inhibit payments to investors on existing securities, and ultimately adversely affect the value and liquidity of Enterprise MBS. Similarly, a failure or interruption of the Office of Finance's services, due to a system failure or cybersecurity incident, could disrupt the FHLBanks' access to funding. To help prepare the Enterprises to respond to such events and ensure the continuity of safe and sound operations, FHFA expects that each will have established, and will continue to maintain, a business resiliency program. However, FHFA has not always enforced that requirement. In 2021, we reported that for nine years, FHFA had not taken timely and decisive supervisory action to bring Fannie Mae into compliance with its prudential standard to ensure business resiliency. DER was aware that the Enterprise's deficient practices had not been corrected, but the Agency did not make a formal assessment against the relevant standard, instead allowing the Enterprise to set its own pace. More recently, examiners have noted progress in this area, while simultaneously noting heightened resiliency risks.

In addition to ensuring resiliency at the regulated entities, FHFA must ensure its own resiliency and has taken steps toward that end. For example, we examined contingency planning controls for two FHFA systems and found that FHFA developed a contingency plan for one, established an alternate storage location, and performed backups at the alternate storage location. However, FHFA did not review or test the systems' contingency plans. Further, FHFA's higher level contingency plan and annual plan testing did not include the second system. FHFA agreed with our recommendations and is further enhancing its contingency planning controls.

Select OIG Reports Issued on FHFA's Oversight of the Regulated Entities' Resiliency and FHFA's Resiliency Efforts:

FHFA Did Not Follow All of its Contingency Planning Requirements for the National Mortgage Database (NMDB) or its Correspondence Tracking System (CTS), AUD-2022-003, December 13, 2021

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

Conclusion

Collectively, the challenges described above are significant and, thus, merit continued attention by the Agency. While we have identified areas of progress in several challenging areas, FHFA must continue to identify the elements of highest risk and, in turn, effectively supervise the regulated entities while they engage in these areas. OIG's risk-based work will remain grounded in these areas, and our audits, evaluations, and other projects will continue to identify findings and make appropriate recommendations to FHFA to strengthen its work.

cc: Edom Aweke, Acting Chief Information Officer
Katrina D. Jones, Chief Operating Officer
Clinton Jones, General Counsel
John Major, Acting Associate Director

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SUMMARY OF FINANCIAL STATEMENTS AUDIT AND MANAGEMENT ASSURANCES

Table 24: Summary of Financial Statements Audit

Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 25: Summary of Management Assurances

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

Compliance with Section 803(a) of the Federal Financial Management Improvement Act
(Federal Management Financial Integrity Act Paragraph 4)

	Agency	**Auditor**
1) Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2) Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3) USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA), effective March 2, 2020, and its predecessor, the Improper Payments Information Act of 2002, as amended requires that agencies: (1) review programs' and activities' susceptibility to significant improper payments; (2) estimate the amount of annual improper payments for those programs and activities and implement a plan to reduce them; and (3) report the estimated amount of improper payments and the progress to reduce them. PIIA defines "improper payment" as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. The act defines "significant improper payments" as the gross annual improper payments exceeding either: a) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported; or b) $100 million (regardless of the percentage of total program outlays).

FHFA, which is funded with non-appropriated funds, complies in spirit with the Act, and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA contracts with the Bureau of the Fiscal Service (Fiscal Service) for accounting services, including payments to vendors. The supplier database is compared to the Do Not Pay portal weekly, and the vendor database is compared against the System for Award Management daily. A copy of the supplier database is validated against the Do Not Pay portal weekly, and matching results are pulled from the Do Not Pay portal weekly. The matching results are researched and acted on by Fiscal Service and FHFA, as appropriate. FHFA has not identified any programs or activities susceptible to significant improper payments that meet the Act's thresholds.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Table 26: Civil Monetary Penalty Adjustment for Inflation					
ENFORCEMENT REGULATIONS:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
Safety and Soundness Act 12 U.S.C. 4636 (b) (1)	First Tier	2008	2022	$13,760	Federal Register 87 (December 2022) 80023-80025
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2022	$68,801	Federal Register 87 (December 2022) 80023-80025
Safety and Soundness Act - 12 U.S.C. 4636 (b) (4)	Third Tier – Entity affiliated party and regulated entity	2008	2022	$2,752,048	Federal Register 87 (December 2022) 80023-80025
PROGRAM FRAUD CIVIL REMEDIES REGULATION:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (1)	Maximum penalty per false claim	2009	2022	$13,508	Federal Register 87 (December 2022) 80023-80025
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (2)	Maximum penalty per false statement	2009	2022	$13,508	Federal Register 87 (December 2022) 80023-80025
FLOOD INSURANCE REGULATION:					
Statutory Authority	**Penalty**	**Year Enacted**	**Latest Year of Adjustment**	**Current Penalty Level**	**Location for Penalty Update Details**
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum penalty per violation	2009	2022	$669	Federal Register 87 (December 2022) 80023-80025
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum total penalties assessed against an Enterprise in a CY	2009	2022	$192,996	Federal Register 87 (December 2022) 80023-80025

Appendices

GLOSSARY

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

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

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

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

Enterprise(s) – Fannie Mae or Freddie Mac.

GAO Green Book – GAO *Standards for Internal Control in the Federal Government*, GAO 14-704G

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

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

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

Regulated Entities – Fannie Mae, Freddie Mac, CSS, OF, and the FHLBanks. For convenience, references to the "regulated entities" in this report should be read to also apply to Common Securitization Solutions and the Office of Finance, unless otherwise noted.

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

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

Uniform Mortgage-Backed Security (UMBS) – A single-class MBS backed by fixed-rate mortgage loans on 1-to-4 unit (single-family) properties issued by either Enterprise, which has the same characteristics (such as payment delay, pooling prefixes, and minimum pool submission amounts) regardless of which Enterprise is the issuer. The UMBS was launched June 3, 2019.

PERFORMANCE MEASURE VALIDATION AND VERIFICATION TEMPLATE

This is an illustrative example of FHFA's Verification & Validation Template. This template is used to provide transparency and information on how we will validate and verify that performance data is accurate. For a detailed explanation of the verification and validation process. Please refer to page 32 of this report.

Strategic Goal: ______________________________

Strategic Objective: ______________________________

Measure: ______________________________

____

Target: ______________________________

Goal Leader: ______________________________

Contact: ______________________________

Office: ______________________________

DEFINITION

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

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

____

____

____

RELEVANCE OF MEASURE

a. Why is this measure important to the agency?

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

____

____

____

VERIFICATION

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

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

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

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

DATA CONSTRAINTS

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

VERIFICATION SOURCE

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

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

OPEN RECOMMENDATIONS

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

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ACKNOWLEDGEMENTS

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

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