FEDERAL HOUSING FINANCE AGENCY

Report to Congress

2009

Federal Housing Finance Agency
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May 25, 2010

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

I am pleased to transmit the Federal Housing Finance Agency's (FHFA's) *Report to Congress*, which presents the findings of the agency's 2009 annual examinations of Fannie Mae and Freddie Mac (Enterprises), the 12 Federal Home Loan Banks (FHLBanks) and the Office of Finance. This report meets the statutory requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008 (HERA). The views in this report are those of FHFA and do not necessarily represent those of the President.

The Enterprises have been operating in conservatorship since September 2008. The purpose of conservatorship is to preserve and conserve each company's assets and property and to put the companies in a sound and solvent condition. The goals of the conservatorships are to help restore confidence in the companies, enhance their capacity to fulfill their mission, and mitigate the systemic risk that contributed directly to instability in financial markets. FHFA continues to exercise oversight as safety and soundness regulator and has a more active role as conservator.

Fannie Mae and Freddie Mac each remain critical supervisory concerns. The examination findings described in this report identify the key challenges facing each company, which include credit risk, operational risk, model risk, and the challenges of attracting and retaining key talent in conservatorship. Each company has made important progress during the past year, especially in the area of corporate governance and remediating deficiencies identified in previous examination reports. Throughout 2009, each company remained active in supporting the secondary mortgage market and, together, the Enterprises' mortgage purchase and guarantee activity in 2009 represented more than 76 percent of total single-family originations. While critical to supporting the ongoing functioning of the nation's housing finance system, the Enterprises would be unable to serve the mortgage market in the absence of the ongoing financial support provided by the U.S. Department of the Treasury.

Central to the goals of conservatorship is the mitigation of credit losses. Each Enterprise in 2009 and over the next several years has and will continue to realize credit losses from mortgages originated in the several years prior to conservatorship. While these past business decisions cannot be undone, each Enterprise, under the oversight and guidance of FHFA as conservator and regulator, is actively seeking ways to minimize these credit losses. The Enterprises' foreclosure prevention efforts are designed to be commercially reasonable, consistent with the goal of conservatorship to minimize losses, and compliant with the Emergency Economic Stabilization Act of 2008 mandate that FHFA as conservator pursue programs that "maximize assistance to homeowners." FHFA reports monthly to Congress on the full range of Enterprise foreclosure prevention activities.

Operational challenges remain a critical concern at each Enterprise. In February, I communicated to you my position that, in conservatorship, the Enterprises will be limited to continuing their existing core business activities and taking actions necessary to advance the goals of the conservatorship. The Enterprises operating in conservatorship cannot be a long-term solution. I look forward to working with the Administration and Congress on a complete review of, and legislative action on, the future of the housing finance system, including an ultimate resolution of the Enterprises' future.

The condition and performance of 6 of the 12 FHLBanks are less than adequate. At these FHLBanks, the principal supervisory issue is private-label mortgage-backed securities (MBS) investments. Half the FHLBanks incurred credit-related impairment charges of more than $200 million on private-label MBS in 2009. Four FHLBanks have negative accumulated other comprehensive income, mostly reflecting noncredit impairment on private-label MBS, in excess of their retained earnings, and this excess is large at two FHLBanks, Seattle and Boston. At the Seattle FHLBank, this condition has led me to use my discretionary authority to deem that FHLBank "undercapitalized" despite holding capital in excess of required regulatory minimums. During 2009, the FHLBanks collectively made substantial progress in improving the rigor and consistency of their analytics in determining the valuation of their private-label MBS.

The FHLBank System met its public purpose during the recent financial crisis. Advances grew rapidly in 2007 and 2008 in response to the growing liquidity crisis in financial markets, topping $1 trillion by September 2008. Since then, as the liquidity crisis has ebbed, bank deposits have grown, and loan demand has slowed, advances have been steadily declining from their peak, falling to $631 billion by year-end 2009. This trend has continued to date in 2010.

FHFA is looking for the FHLBank System to return to more traditional operations and activities, with a focus on the advances business, and a gradual reduction in investment portfolios not needed to support core business activities and safety and soundness. FHFA examinations of the FHLBanks' affordable housing and community investment programs found improvements at several FHLBanks in response to previous examination findings.

FHFA issued numerous proposed and final regulations in 2009 and this has continued into 2010. For example, recently published final rules allow community development financial institutions to become members of the FHLBanks and require Fannie Mae and Freddie Mac to report to FHFA anytime they discover they have purchased or sold a fraudulent loan or financial instrument. FHFA also published a proposed rule to promote the inclusion of women and minorities in all activities at Fannie Mae, Freddie Mac, and the FHLBanks. FHFA modified the Enterprises' housing goals for 2009 in light of market conditions. On February 26, 2010, FHFA published a proposed rule implementing HERA's new housing goal regime. FHFA also issued more than a half-dozen HERA-mandated reports to Congress, which are summarized in this report. In 2009, FHFA published more than a dozen research papers, mortgage market notes, and commissioned research papers on mortgage default assessment.

In November 2009, FHFA sent to you its second annual *Performance and Accountability Report* (PAR) detailing the agency's performance relative to its performance plan. I am pleased to report that our PAR again has been awarded the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants.

FHFA is now about 21 months old. We continue to build the staff and operational infrastructure to carry out the responsibilities Congress gave to us in HERA. I am proud of the hard work and dedication of the FHFA staff in carrying out the agency's mission during a period of extraordinary financial stress and through the unprecedented conservatorships FHFA continues to oversee.

Yours truly,

Edward J. DeMarco

Edward J. DeMarco
Acting Director

Federal Housing Finance Oversight Board Assessment

Section 1103 of the Housing and Economic Recovery Act (HERA) of 2008 requires that the Federal Housing Finance Agency (FHFA) Director's Annual Report to Congress include an assessment of the Federal Housing Finance Oversight Board or any of its members with respect to:

- The safety and soundness of the regulated entities;
- Any material deficiencies in the conduct of the operations of the regulated entities;
- The overall operational status of the regulated entities; and
- An evaluation of the performance of the regulated entities in carrying out their respective missions.

FHFA's annual report provides a detailed review of the issues described above for Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks).

Enterprises

The Enterprises continue to operate under conservatorships established in 2008, with financial support from the U.S. Treasury Department through the Senior Preferred Stock Purchase Agreements established at the same time. In 2009, Treasury strengthened its financial commitment to the Enterprises under the preferred stock agreements to provide greater market confidence given the fragile state of the housing finance markets. In 2009, the Enterprises' losses totaled $93.6 billion, and draws under the preferred stock agreements associated with those losses totaled $66.1 billion. These losses and draws under the preferred stock agreements are the result of business decisions made by the Enterprises prior to entering into conservatorship.

A key measure of safety and soundness, levels of capital and capital adequacy, cannot be employed for the Enterprises while operating under conservatorship with financial support from Treasury. Both Enterprises have depleted all of their shareholders' equity, with the negative balances of those accounts being offset by Treasury's investments under the Preferred Stock Purchase Agreements.

When considering the safety and soundness of the Enterprises, it is important to consider and recognize the important differences between the book of business acquired prior to conservatorship and the book of business acquired since the beginning of conservatorship. A key factor leading up to conservatorship was the Enterprises' investments in private-label mortgage-backed securities (MBS). Declines in the market value of these investments along with subsequent impairments drove losses and reductions in net worth throughout 2008. Investments in private-label MBS were primarily responsible for eliminating Freddie Mac's preconservatorship net worth of $27 billion and played a significant role in the initial draws under the Preferred Stock Purchase Agreements. Given that Fannie Mae had less than half the amount of private-label MBS as Freddie Mac, the overall impact was similar but less severe.

Considering the guarantee book, almost all of the credit losses realized at Fannie Mae and Freddie Mac in 2009 were the result of mortgages originated prior to conservatorship, and the substantial majority of those losses were the result of mortgages originated in 2005, 2006, and 2007 during the height of the home mortgage boom. Each Enterprise has and will continue to realize credit losses from mortgages originated in the several years prior to conservatorship. While these past business decisions cannot be undone, each Enterprise, under the oversight and guidance of FHFA as conservator and regulator, is actively seeking ways to minimize these credit losses and ensure that new business generated postconservatorship is profitable.

Since the Enterprises were placed into conservatorship, in accordance with guidance provided by FHFA to ensure conservation of assets and minimization of future loss, the Enterprises have tightened their underwriting standards. For example, FICO credit scores of mortgages guaranteed in 2006-2007 averaged around 715, while today they average around 750. Average loan-to-value (LTV) ratios have also decreased by about 5 percentage points in the postconservatorship time period (and 89 percent of new mortgages had an LTV ratio of 80 percent or less in 2009, as compared to 76 percent of new mortgages with LTV ratios of 80 percent or less in 2007). As a result, the overall performance on new mortgage guarantees has improved. Serious delinquency rates for the 2009 vintage are a fraction of the serious delinquency rates for the 2006-2008 vintages at comparable periods after origination.

Each Enterprise has also made changes in their national guarantee fee pricing to correct for the underpricing of credit risk in prior years and to reflect current risks in an environment of falling house prices and other factors. During 2009, in light of heightened mortgage delinquencies and forecasts for continued declines in house prices, the Enterprises updated their pricing models several times, as they had in 2008, to reflect changes in the market environment.

The Enterprises have made progress in addressing material operational deficiencies in 2009; however, the *Report of Examination* for each Enterprise assigns a composite rating of critical concerns and describes a number of areas where additional work is needed to correct ongoing operational deficiencies. In particular, progress in 2009 was made on addressing issues relating to corporate governance and liquidity management. Areas of concern and further work remain in the following areas: operational risk, which has increased along with the inherent rise of real estate owned and essential loss mitigation activities; credit risk, arising from increasing loss severities as well as deterioration in the health of key counterparties, particularly mortgage insurers; and the reliability of models used for risk management and key accounting estimates. FHFA remains focused on addressing these areas of concern in 2010.

In terms of mission, since being placed into conservatorship, the Enterprises have maintained an ongoing significant presence in the secondary mortgage market. The Enterprises currently serve a vital role in the housing market in helping to ensure that mortgage credit is available. Private capital has not yet returned to provide the amount of funding needed to allow families to get a mortgage in order to buy a new home or to sensibly refinance the house they already live in. In 2009, the Enterprises' share of single-family originations was 76 percent, up from 73 percent in 2008. Both Enterprises also continue to play an important role in efforts to limit preventable foreclosures, which are designed to mitigate Enterprise losses as well as enhance stability in housing markets and local communities, both of which are essential to stabilizing the Enterprises. FHFA has continued work on implementing new housing goals and duty to serve requirements that are mandated by Congress in HERA.

The Enterprises' operational status in conservatorship cannot be a permanent state for the Enterprises, and directing the Enterprises' operations in conservatorship presents its own set of challenges for FHFA. As debate continues over the design of the future housing finance system, FHFA remains focused on the fundamental purposes of the conservatorships: conserving the Enterprises' assets and maintaining their activities in the secondary mortgage market.

FHLBanks

The FHLBanks' advance business continues to operate with no credit losses. In contrast, the quality of the FHLBanks' investments in private-label MBS remains a significant concern. Overall, the joint and several liability of FHLBank System debt enhances the safety and soundness of the System, but the actual and potential losses associated with these private-label MBS are a cause for safety and soundness concerns at certain FHLBanks. As of December 31, 2009, all 12 FHLBanks exceeded the minimum leverage ratio by having at least 4 percent capital-to-assets. The weighted average regulatory capital to assets ratio for the FHLBank System was 5.9 percent.

Material deficiencies are present at some individual FHLBanks. Since October 2007, the FHLBank of Chicago has operated under a consent order to cease and desist. The consent order suspended dividend payments and stock repurchases and redemptions. It also required the FHLBank to address certain supervisory concerns. The FHLBank of Chicago made improvements in risk management and cost controls, but its overall financial weakness remains a material deficiency. A continued deterioration of the FHLBank of Seattle's private-label MBS investments led to the FHLBank not meeting its risk-based capital requirement for part of 2009, and FHFA has deemed that FHLBank undercapitalized.

FHLBank investments in private-label MBS have adversely affected the overall operations of some FHLBanks—dividends have been suspended, as has their ability to repurchase or redeem stock. As noted, FHFA has taken action where needed to address this problem at certain FHLBanks and is closely monitoring the situation at other FHLBanks.

The FHLBanks met their mission of providing liquidity to their members, although the volume of advances declined significantly in 2009. The FHLBanks' Affordable Housing Program (AHP) continues to be a source of funds to support local affordable housing initiatives being funded by member institutions; however, the decline in FHLBank income has reduced AHP contributions. FHFA has continued work on implementing HERA-mandated housing goals for the FHLBanks.

Edward J. DeMarco
Chairman
Federal Housing Finance Oversight Board

Timothy F. Geithner
Secretary
U.S. Department of the Treasury

Shaun Donovan
Secretary
U.S. Department of Housing and
Urban Development

Mary L. Schapiro
Chairman
Securities and Exchange Commission

FHFA Report to Congress 2009

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Year in Review

Resumption of Economic Growth

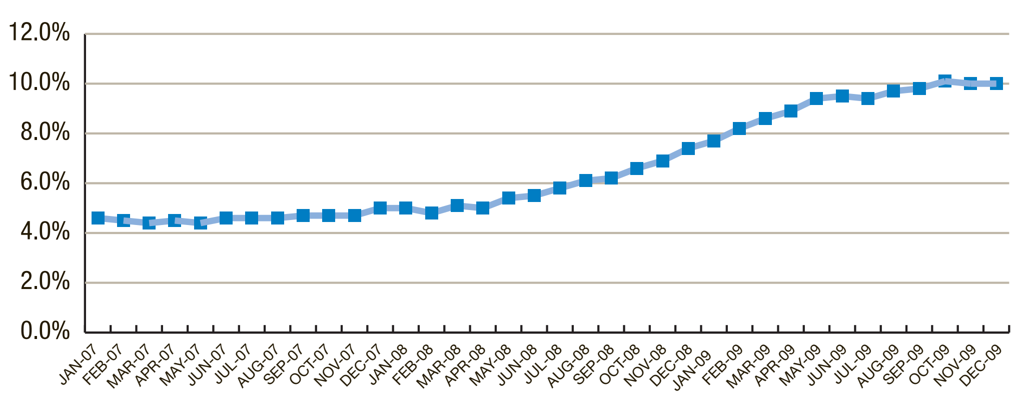
The nation began to emerge in 2009 from one of the deepest economic recessions in decades. The economy continued to shrink during the first half of the year, but expanded in the second half. Economic output, as measured by real gross domestic product (GDP), increased at an annual rate of 2.2 percent in the third quarter and 5.9 percent in the fourth, the fastest pace of quarterly expansion in more than six years. That growth was boosted by a substantial slowdown in the rate at which businesses liquidated inventories, higher nonresidential fixed investment, and increased exports.

Improvements in the housing sector also helped to propel the economy forward. Specifically, real residential fixed investment, which had had a negative impact on GDP for 14 consecutive quarters prior to third quarter of 2009, had a positive effect on GDP in the second half of the year, driven in part by an increase in home sales. Low borrowing costs and the federal tax credit for first-time homebuyers contributed to the increase. GDP gains in the second half of the year slightly exceeded declines in the first half of the year. Real GDP for the full year contracted by 2.4 percent from 2008. It was the nation's worst year-over-year economic performance since 1946. Consumer price inflation, as measured by the Consumer Price Index, accelerated during 2009 but remained moderate at 2.7 percent.

Despite the resurgence in economic activity in the United States in the second half of the year, labor market conditions remained stressed throughout 2009. The nation lost more than 4.7 million jobs during the year. Job losses occurred in most sectors of the economy—transportation, leisure/hospitality, finance/insurance, and, of course, construction. The unemployment rate was about 5 percent at the start of the recession in December 2007 and rose generally thereafter, peaking at 10.1 percent in October 2009, its highest level in more than two decades. The unemployment rate was 10 percent at the end of the year, up from 7.4 percent one year earlier. (See Figure 1.)

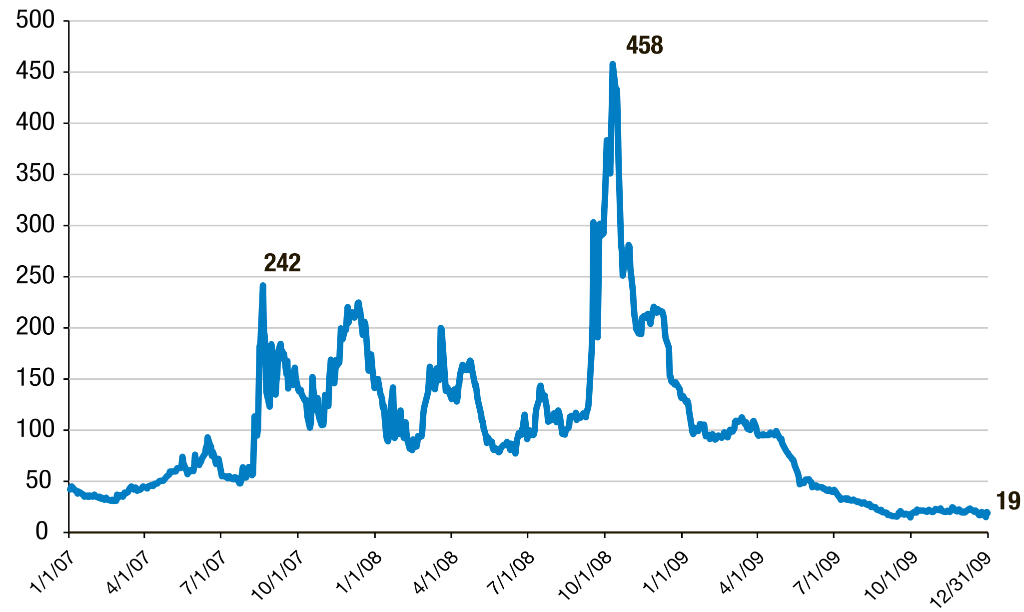
The depth of the recession sharply lowered federal tax receipts and elevated federal spending for fiscal year 2009. In addition, various new federal policies were implemented in response to the recession, including fiscal stimulus legislation enacted in February; aid for the financial, housing, and automotive sectors; and the expansion and extension of unemployment insurance benefits. As a result of those changes, the federal budget deficit for fiscal year 2009 doubled to over $1.4 trillion.

Figure 1 • Monthly Unemployment Rates (seasonally adjusted)



Source: Bureau of Labor Statistics

Figure 2 • Spread Between Three-Month LIBOR and Treasury Bill



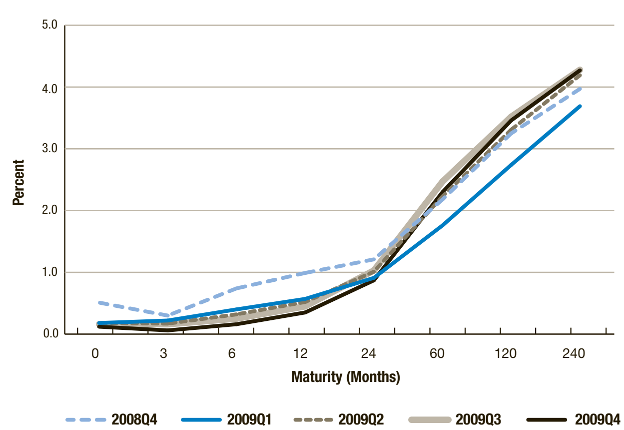
Sources: Bloomberg Financial LP and Federal Reserve Board

Financial markets continued to be stressed during the first half of 2009 but improved later, along with broader economic measures. Major equity market indexes, which had fallen precipitously in late 2008, continued to decline in the first quarter of 2009 but began to recover in the second half and ended the year well above their year-end 2008 levels. Credit market conditions improved as well. The spread between the three-month London Interbank Offered Rate (LIBOR) and the three-month Treasury bill rate (the TED spread, a measure of interbank liquidity and credit risk) narrowed below precrisis levels. (See Figure 2.)

The Federal Reserve maintained the federal funds target rate in the range of zero to 25 basis points, established in December 2008. The one-year Constant Maturity Treasury yield remained below 1 percent throughout the year and averaged 0.47 percent for the year. Long-term interest rates, however, showed far more movement, responding to a number of factors, including the rising federal budget deficit and diminished fears of continuing recession. After falling to a low of 2.08 percent in 2008, the yield on the 10-year Constant Maturity Treasury rose in the first half of 2009 and ended the year at 3.85 percent, more than 150 basis points higher than at the end of 2008. (See Figure 3.) Because long-term interest rates rose more than short-term rates, the Treasury yield curve steepened. The gap between the yields on the 2- and 10-year Constant Maturity Treasury widened late in the year to more than 280 basis points, the highest on record.

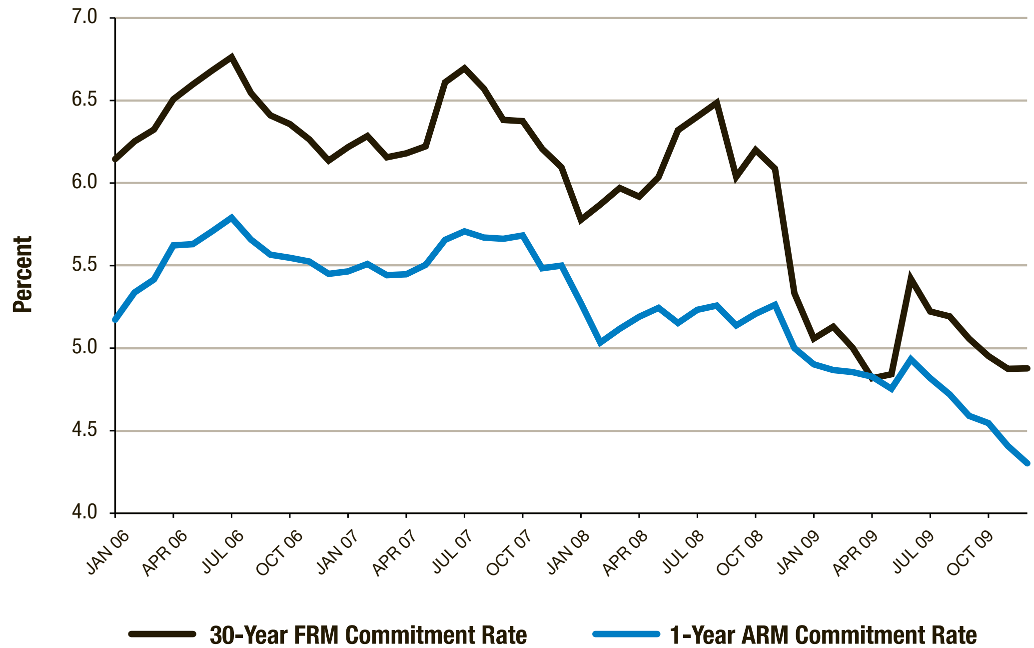
Mortgage interest rates, which generally follow the trend of long-term Treasury rates, reached the lowest levels in decades during 2009. Massive Federal Reserve and Treasury purchases of mortgage-backed securities (MBS) under programs

Figure 3 • Treasury Yield Curve in 2009



Source: Federal Reserve Board

Figure 4 • Mortgage Commitment Rates



Source: Freddie Mac

announced in 2008 pushed the prices of MBS up, lowered yields, and kept rates down in the primary mortgage market. According to Freddie Mac's Primary Mortgage Market Survey®, the average commitment rate on 30-year fixed-rate mortgages generally continued the decline that started in the second half of 2008. Although the rate rose to 5.59 percent in June, it declined thereafter and averaged 5.04 percent for the year, almost a full percentage point below the average for 2008. The average commitment rate on one-year Treasury-indexed adjustable-rate mortgages (ARMs) averaged 4.7 percent for the year, 47 basis points lower than the year before. (See Figure 4.)

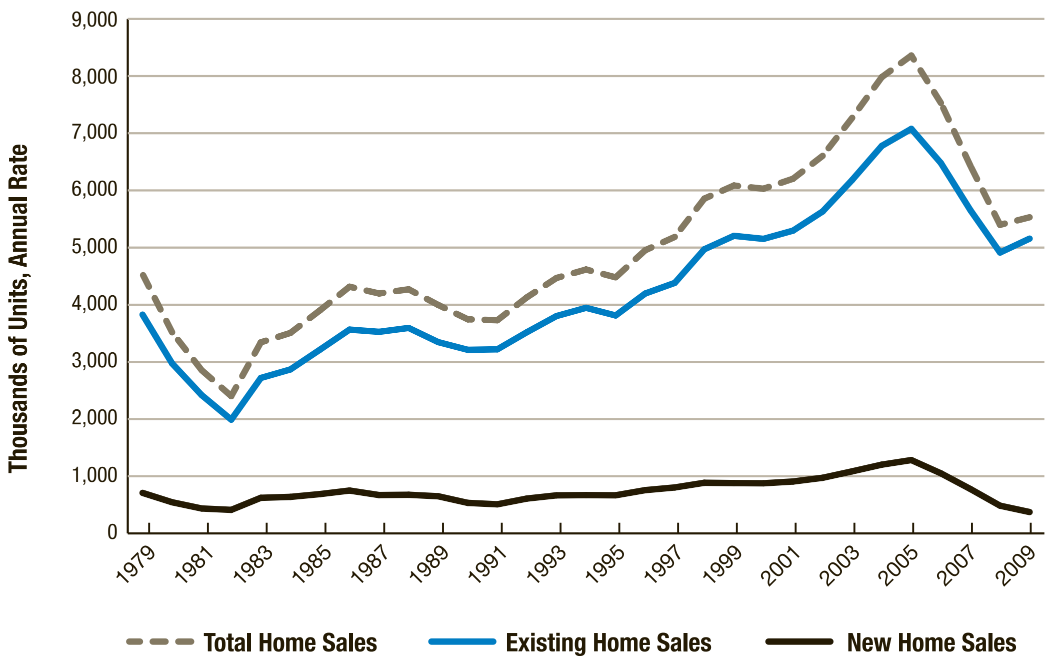
Stronger Housing and Mortgage Markets

After a disastrous 2008, U.S. housing market activity began to stabilize in 2009. Single-family housing starts continued to decline, but they fell at a slower pace than in 2008. In 2009, 457,000 single-family dwellings were started, the lowest level on record. Sales of new homes dropped for the fourth consecutive year, falling by 23 percent to the lowest annual sales volume on record. However, after declining for three consecutive years, total home sales reversed course and rose slightly, driven by an increase in sales of existing homes—the largest segment of the market—which rose 5 percent. (See Figure 5.)

The inventory of new and existing homes for sale declined in 2009 to 3.5 million units, or about 7.2 months' supply, down from 9.5 months' supply at the end of 2008. An $8,000 federal tax credit for first-time homebuyers contributed to increased sales in the housing market.

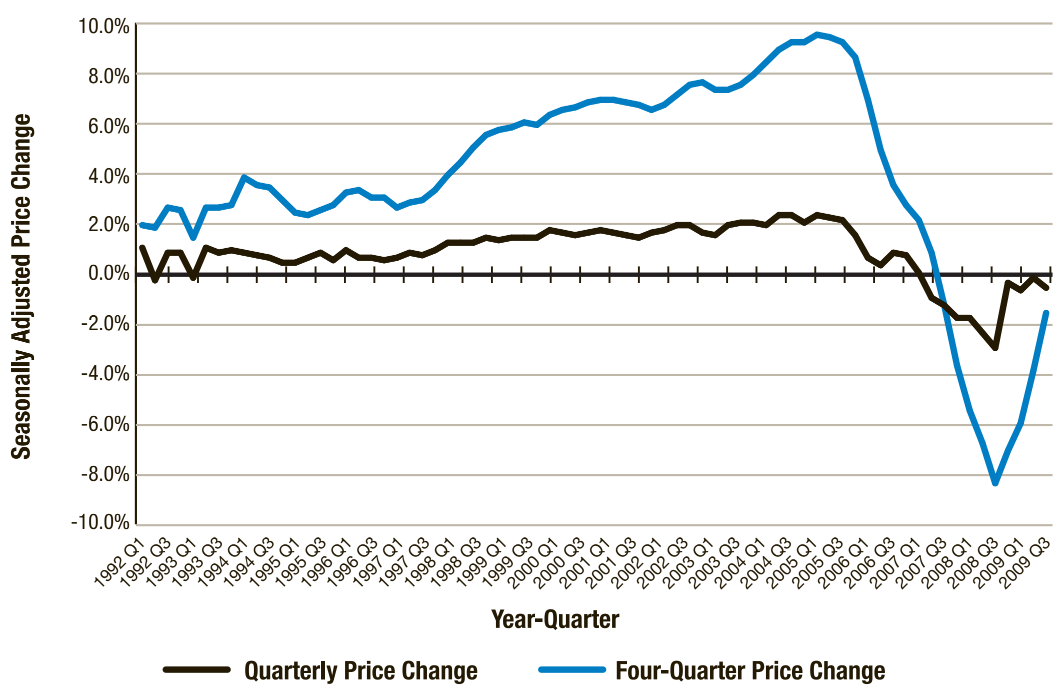
House prices declined further in 2009, but at a more modest pace than in the prior year. As measured in FHFA's national seasonally adjusted purchase-only house price index (HPI), which is estimated using sales price information from mortgages acquired by Fannie Mae and Freddie Mac (the Enterprises), U.S. prices fell 1.5 percent between the fourth quarters of 2008 and 2009. (See Figure 6.) In the prior four quarters, by contrast, the decline was 8.3 percent.

Figure 5 • Home Sales



Sources: National Association of Realtors and U.S. Census Bureau

Figure 6 • FHFA House Price Index History for the United States



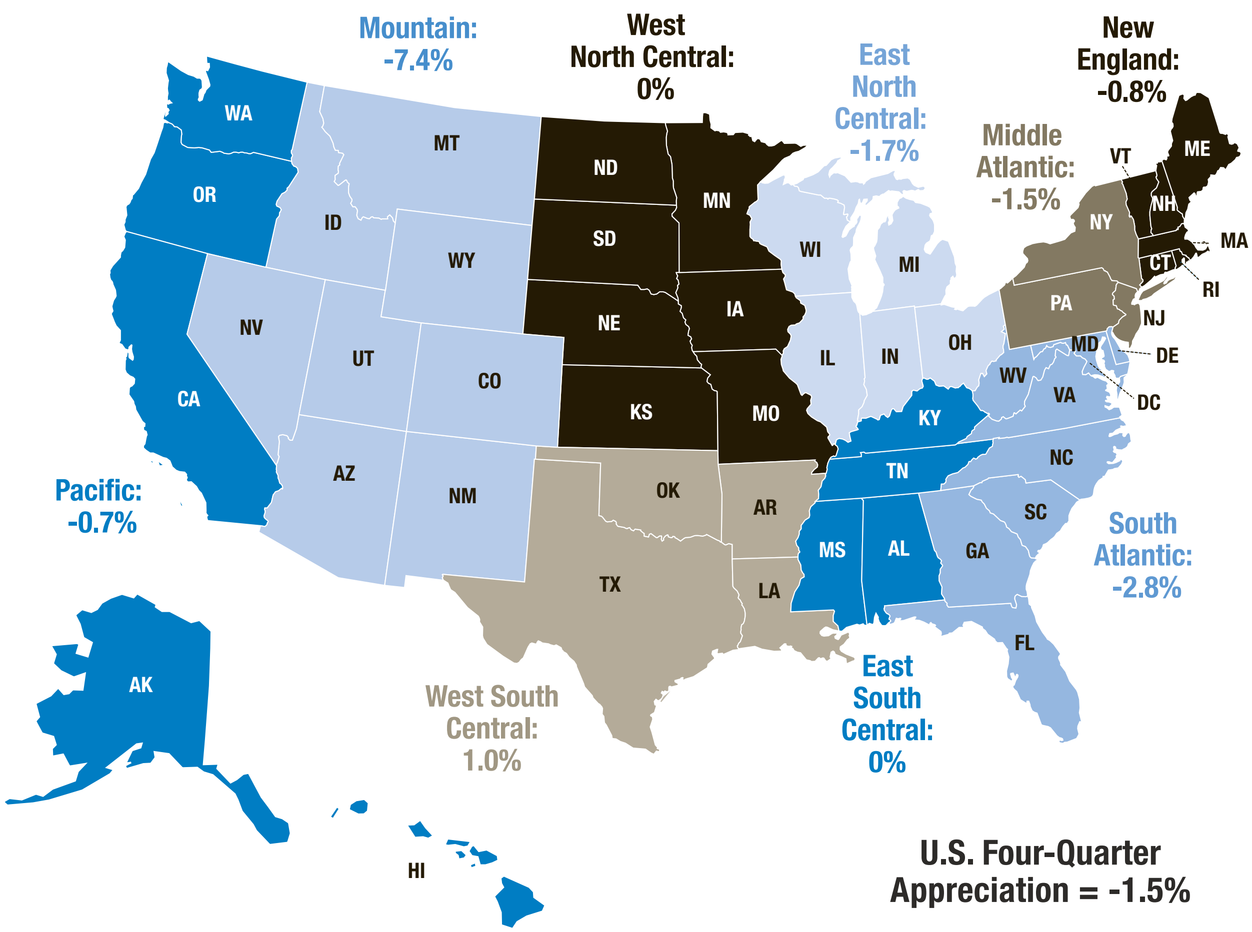
Source: Federal Housing Finance Agency

Other commonly-cited metrics of house price trends also showed deceleration in the rate of decline. For example, the S&P/Case-Shiller quarterly U.S. index showed a 2.5 percent drop between the fourth quarters of 2008 and 2009, much smaller than the 18.3 percent decline in the prior four quarters. LoanPerformance's monthly HPI calculated a 5.3 percent decline between November of 2008 and 2009, as compared to 16.6 percent for the prior 12 months.

Significant regional disparities in the rate of price decline were evident in 2009. The Mountain Census Division, which includes Arizona, Nevada and the Rocky Mountain States, suffered by far the largest decline. (See Figure 7.) Prices fell 7.4 percent for the Census division as a whole, with Nevada (17.0 percent) and Arizona (13.0 percent) posting the largest drops between the fourth quarters of 2008 and 2009. The South Atlantic Census Division had the second largest price decline, primarily driven by conditions in Florida, where prices fell more than 8 percent. By contrast, most other southern states showed essentially flat prices. Some even saw prices increase—prices were up 2.5 percent in Virginia and 0.8 percent in South Carolina.

With low rates of unemployment relative to other areas of the country, the West South Central Division had the strongest regional housing market. Prices grew 1 percent in that division over the

Figure 7 • Four-Quarter Price Change in Purchase-Only Index by Census Division
Fourth Quarter 2008 through Fourth Quarter 2009



Source: Federal Housing Finance Agency

year, led by Oklahoma's 3.8 percent increase. Those gains, though large relative to other regions, were still modest in absolute terms. As prices of other goods and services grew more rapidly during the year, real (inflation-adjusted) prices actually fell in the division as a whole.

As in 2008, many of the states that had seen the greatest house price run-ups during the housing boom were among those experiencing the greatest declines in 2009. Nevada, Arizona, Florida, Utah, and Idaho were among the fastest-appreciating areas in the middle part of the decade, but were among the 10 states with the largest price drops. Also consistent with 2008, many of the states with stronger markets were relatively rural—prices held up relatively well from the northern plains states through Texas.

Declining prices, relatively high unemployment, and significant negative equity in many areas combined to drive up single-family mortgage delinquencies across loan types and geographic areas in 2009. For single-family loans, the rate of serious delinquency—the number of active loans 90 days or more past due or in foreclosure—increased by more than 50 percent during the year. According to the Mortgage Bankers Association's National Delinquency Survey, the serious delinquency rate grew from 6.3 percent in the fourth quarter of 2008 to almost 9.7 percent in the fourth quarter of 2009. (See Figure 8.) The share of seriously delinquent subprime loans rose to more than 30 percent in the fourth quarter, up from 23.1 percent the year before. Since many subprime loans had defaulted before 2009 (and were no longer in the population of active loans), the growing rate of serious delinquencies was striking.

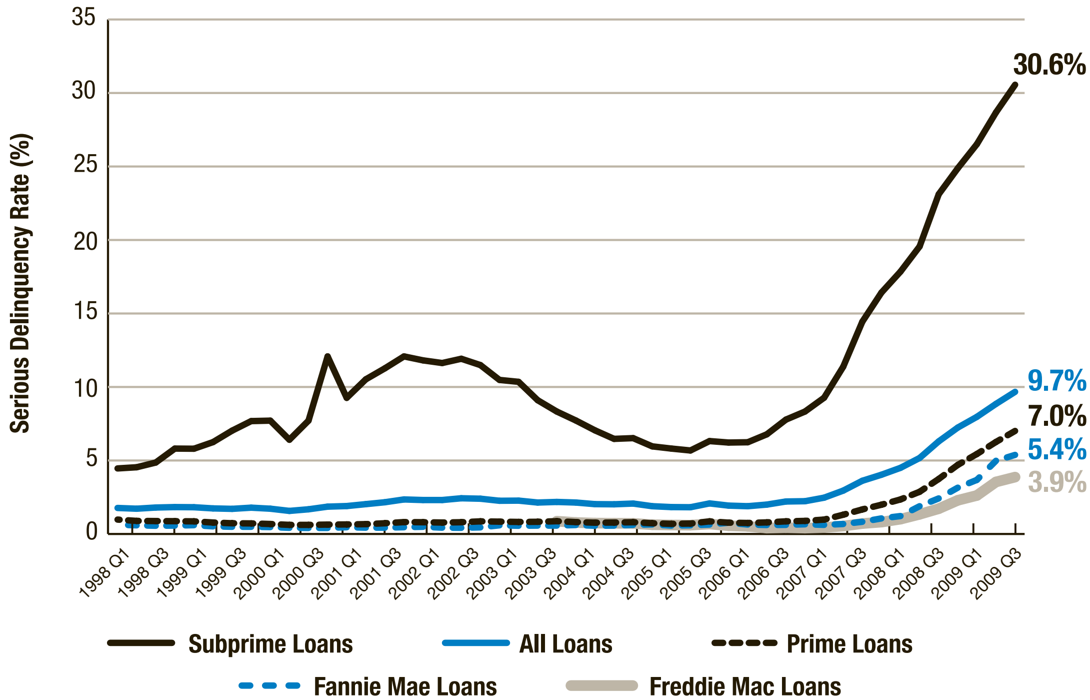
The rising rate of serious mortgage delinquency was geographically widespread. Every state in the country, including a state like Montana that had relatively low delinquency rates going into 2009, experienced increases in serious delinquencies. California, Arizona, Nevada, and Florida had the highest serious delinquency rates, as in 2008. During the fourth quarter of 2009, their rates ranged from 12.5 percent to 20.4 percent for all loans.

The serious delinquency rate for single-family mortgages held or securitized by Fannie Mae and Freddie Mac remained well below the rates for subprime and all loans reported by the Mortgage Bankers Association, just as in 2008. Nevertheless, serious delinquencies for Enterprise mortgages did grow significantly in 2009. The serious delinquency rate for Fannie Mae and Freddie Mac loans more than doubled during the year, exceeding the proportionate increases reported by the Mortgage Bankers Association. Between December 2008 and December 2009, the seriously delinquency rate increased from 2.4 percent to 5.4 percent for Fannie Mae mortgages and from 1.7 percent to 3.9 percent for Freddie Mac loans. (See Figure 8.)

One of the more noteworthy aspects of mortgage delinquencies during 2009 was the extraordinarily low rate at which delinquent loans "cured" (which means borrowers became current on their mortgages after being delinquent). Cure rates plummeted relative to rates in the earlier part of the decade. In August 2009, Fitch Ratings reported the overall cure rate for prime loans was well below 10 percent. According to that firm's data, cure rates from 2000 to 2006 were roughly 45 percent. Fitch also noted that cure rates for prime loans, which had previously been much higher than those for subprime and Alt-A loans, were very close to Alt-A and subprime cure rates in 2009.

Although foreclosure moratoria were in effect in some areas and single-family mortgage modification programs expanded during the year, the number of foreclosure filings in 2009 was very high. The foreclosure rate was relatively stable throughout the year, despite the rising serious mortgage delinquency rate. Quarterly foreclosure starts, when measured as a percentage of outstanding loans, varied from 1 percent to 1.5 per-

Figure 8 • Serious Delinquency Rates, 1998–2009



Source: Mortgage Bankers Association

cent, according to the Mortgage Bankers Association. Foreclosure starts grew slightly during the year for all mortgage types except subprime loans. For those mortgages, the rate fell about a quarter percentage point, from approximately 4 percent of active loans to 3.7 percent.

Government Support

Two new federal programs were initiated in March 2009 to address the problems of single-family mortgage delinquencies and defaults. The programs, the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP), aim to provide relief to homeowners in financial distress and to allow homeowners to refinance. Under HAMP, the relief comes in the form of a modified mortgage with lower payments. HARP provides the ability to refinance an existing mortgage when such a refinancing would not have been feasible under normal underwriting criteria.

HAMP seeks to provide mortgage modifications to homeowners in financial hardship and whose mortgage payments comprised a relatively large share of their gross income. The program, which is restricted to mortgages on owner-occupied homes with unpaid balances of less than $729,750 for one-unit properties, provides incentives for loan servicers to reduce monthly payments to no more than 31 percent of gross monthly income. A well-defined sequence of modification levers (interest rate reductions, loan term extension, and principal forbearance) forms the framework for loan servicers to reduce loan payments to manageable levels. The program starts with a trial period so borrowers with modified mortgages can demonstrate their ability and inclination to pay the lower payment amounts. Mortgages only become permanently modified under HAMP upon completion of the trial period.

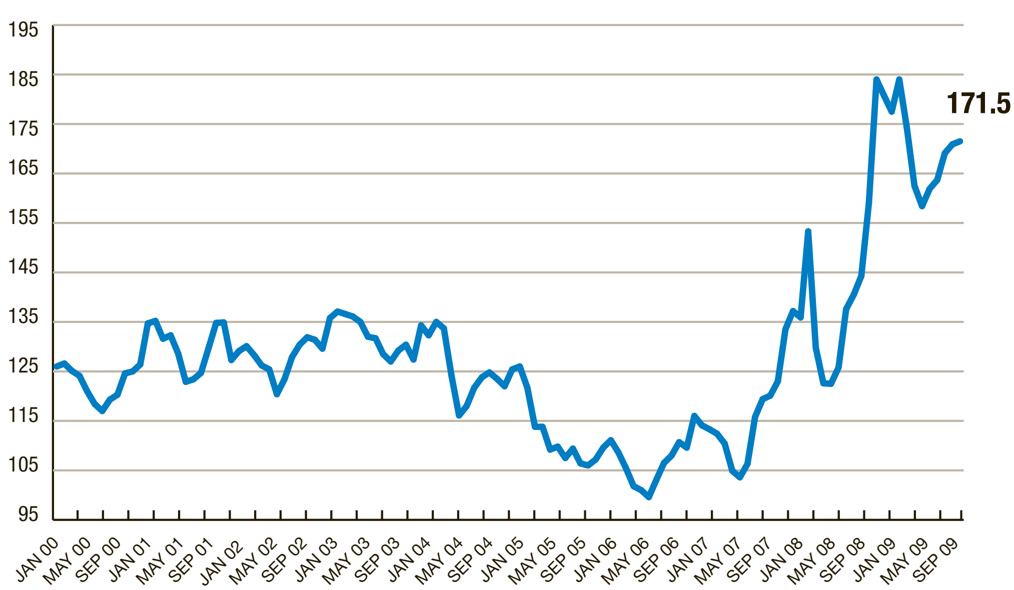
HAMP activity increased steadily through the last three quarters of 2009. The total number of trial loan modifications extended under the program was approximately 242,000 at the end of June but grew to more than 1.16 million by the end of the year. Trial periods had been completed and permanent modifications extended to only 110,000 borrowers at year end. In many cases, servicers had not received adequate documentation, and in many others, servicers had not finished processing files.

Unlike HAMP, HARP does not require evidence of current hardship. To participate in HARP, homeowners must be current on their mortgage payments. HARP allows borrowers with little or negative equity to refinance their mortgages at existing mortgage rates, which were relatively low in 2009. The program, which covers borrowers whose mortgages were owned or guaranteed by Fannie Mae or Freddie Mac, was originally restricted to borrowers with current loan-to-value ratios of 105 percent or less. In the summer of 2009, FHFA authorized the Enterprises to expand the program to include mortgages with current loan-to-value ratios up to 125 percent.

HARP activity during the year tracked changes in mortgage rates, with the impact of rates becoming noticeable after a few months' lag. After a slow spring when the program was ramping up, borrowers refinanced more than 85,000 loans under HARP between June and August. HARP volumes fell in September to a little more than 23,000 and in October to nearly 18,000 loans as higher interest rates during the summer months had decreased the relative attractiveness of refinancing.

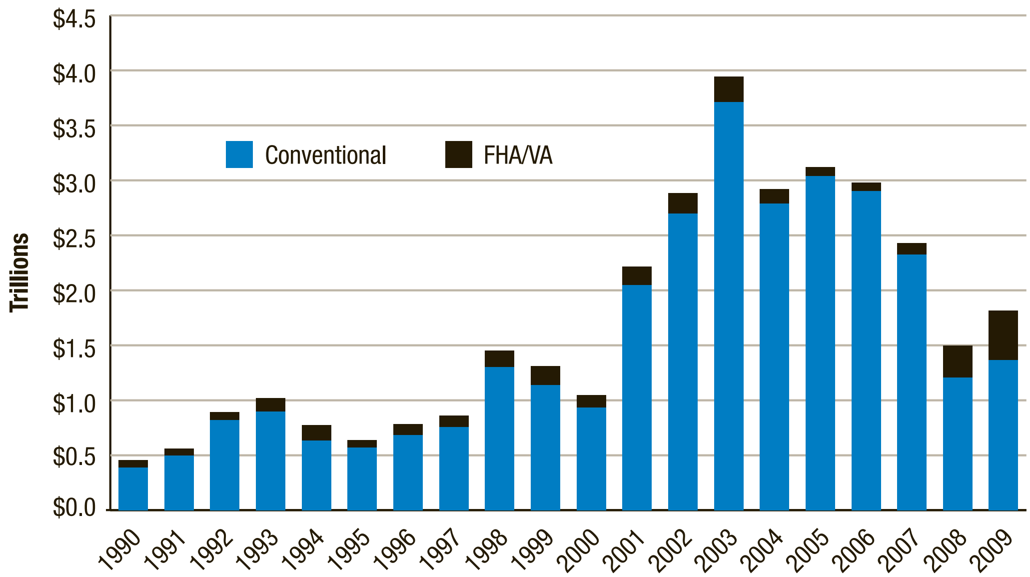
HARP loan volumes rebounded, however, in the final two months of the year. More than 34,000 loans were originated in December, the highest number of any other month in 2009. The relatively high volume was a product of steadily declining mortgage rates in the last half of 2009. The expansion in HARP eligibility also contributed. In November and December, more than 1,600 HARP loans were originated with current loan-to-value ratios of between 105 and 125 percent.

Figure 9 • U.S. Composite Housing Affordability Index, 2000–2009



Source: National Association of Realtors

Figure 10 • Single-Family Mortgage Originations



Source: *Inside Mortgage Finance* publications

Affordability and Originations Increase

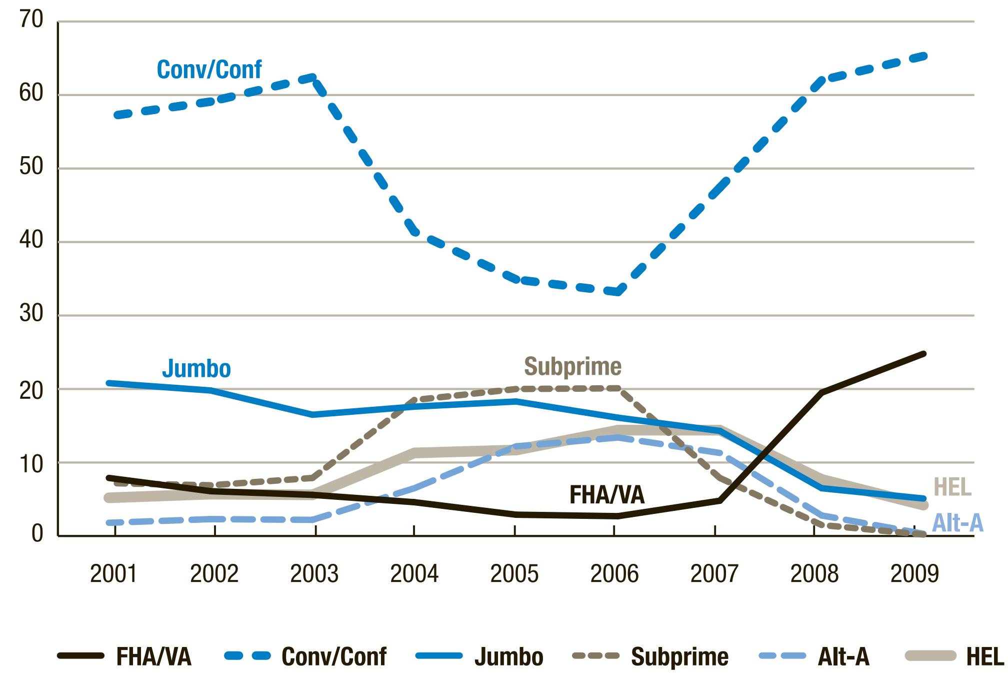
As a result of continued house price declines and very low mortgage rates, new homebuyers encountered a much more affordable housing market in 2009. As measured by the National Association of Realtors' composite housing affordability index, which reports the ratio of median household income to the income that would be required to buy a median-price home (where 100 indicates exactly the right amount of income), affordability continued to increase during the year. That index rose from 166.3 in December 2008 to 171.5 one year later. (See Figure 9.)

The higher value of the index mainly reflects a 12.5 percent decline during 2009 in the median price of existing single-family homes and lower mortgage interest rates. Despite greater affordability, the nation's homeownership rate, which peaked at 69.2 percent in the fourth quarter of 2004, declined to 67.2 percent in 2009, slightly below the rate at year-end 2008 and the lowest level since the first quarter of 2000. The rental vacancy rate was 10.7 percent in the fourth quarter of 2009, up from 10.1 percent one year earlier.

The rising rental vacancy rate suggests the supply of rental housing greatly exceeds the demand. Factors that could be responsible for the rising rental vacancy rate include conversions of condominiums and other owner-occupied housing to rental units and renters doubling up due to rising rental costs or loss of employment. The vacancy rate for homes usually occupied by the owner declined to 2.7 percent from 2.9 percent the year before.

Falling house prices, declining mortgage interest rates, more distressed home sales, and the federal tax credit for new homebuyers resulted in a recovery in mortgage originations in 2009. According to *Inside Mortgage Finance*, after falling for three consecutive years, originations of single-family mortgages rose 21 percent in 2009 to $1.815 trillion. (See Figure 10.) But two market sectors that had been sizable earlier in the decade—subprime and Alt-A loans financed with private-label securitizations—showed even less activity in 2009 than in the previous year. (See Figure 11.)

Figure 11 • Single-Family Mortgage Originations by Market Segment



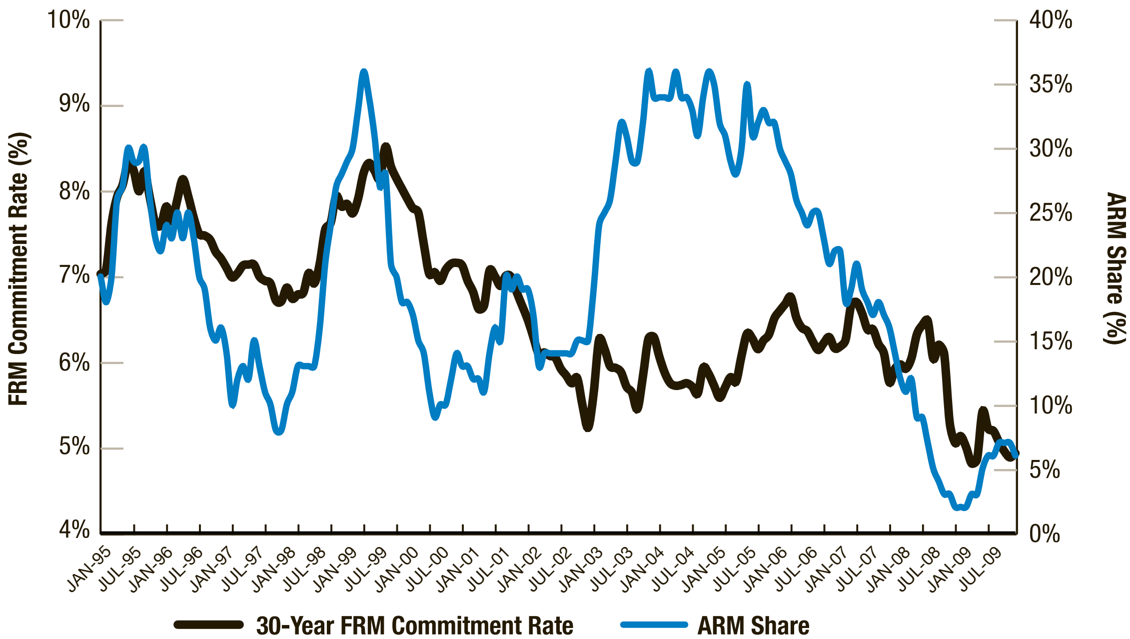
Source: *Inside Mortgage Finance* publications

Loans insured by the Federal Housing Administration increased to 21 percent of single-family mortgages originated in 2009, up from 17 percent in 2008, spurred by the continuation of more favorable lending programs. The Department of Veterans Affairs' share of originations also increased, rising to 4 percent in 2009. Both types of mortgages backed by the federal government accounted for a combined 25 percent of single-family originations in 2009, up from just 4 percent two years earlier. Hurt by capital constraints, private mortgage insurers saw their share of mortgage originations fall sharply in 2009, to 4.5 percent compared to 12.9 percent the year before.

Fixed-rate lending continued to dominate the single-family mortgage market in 2009. According to Freddie Mac's Primary Mortgage Market Survey®, applications for single-family ARMs remained at historic lows. The ARM share of applications for conventional nonjumbo loans dipped to 2 percent in the first quarter and increased gradually to 7 percent in the third. (See Figure 12.) According to Freddie Mac, consumers seeking ARMs in 2009 showed a preference for hybrid ARM products over the traditional one-year ARM indexed to the one-year Treasury yield. The 5/1 ARM, in particular, received the most interest. That product has a fixed rate for five years and adjusts annually thereafter.

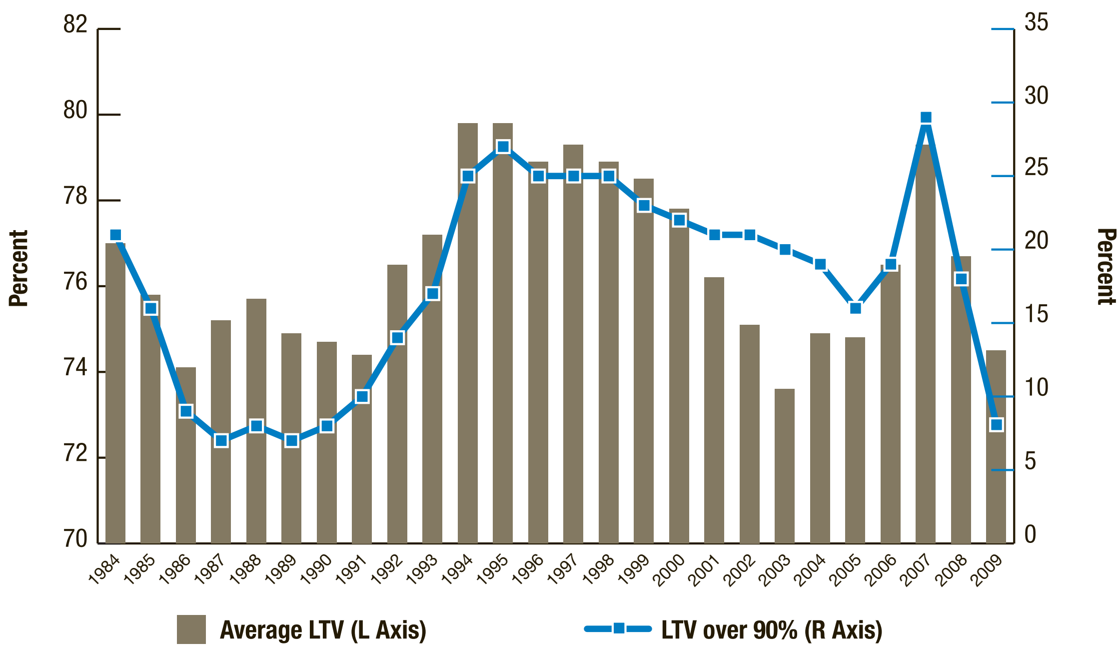
Refinancings accounted for more than two-thirds of single-family mortgages originated in 2009. As in 2008, most borrowers who refinanced ARMs chose to convert those loans into fixed-rate mortgages, taking advantage of narrow spreads between fixed and adjustable mortgage rates. The credit quality of conventional fixed-rate originations continued to improve in 2009, with lower loan-to-value ratios resulting from more stringent underwriting standards. According to FHFA's Monthly Interest Rate Survey, the average loan-to-value ratio of single-family conventional, purchase-money mortgages fell to the lowest level since 2003 at 74.5 percent in 2009, down from

Figure 12 • ARM Share of Conventional Nonjumbo Single-Family Loan Applications and Commitment Rates on 30-Year Fixed-Rate Mortgages



Source: Freddie Mac's Primary Mortgage Market Survey®

Figure 13 • Loan-to-Value Ratios of Conventional Single-Family Mortgages and Percentage of Originations with LTV>90%



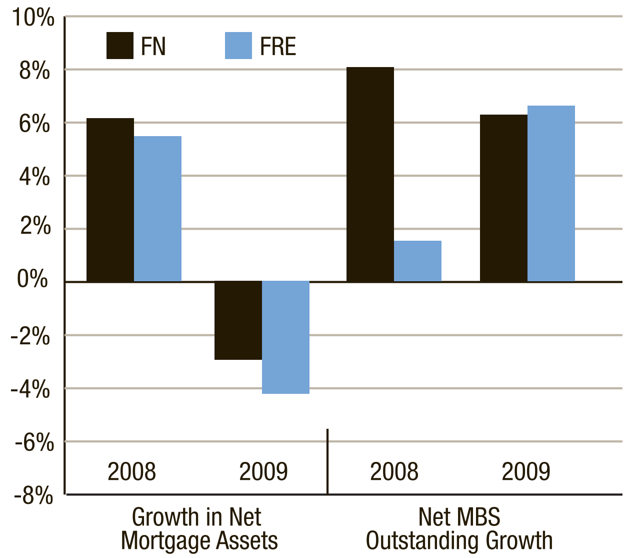
Source: FHFA Monthly Interest Rate Survey

76.7 percent in 2008 and 79.3 percent in 2007. The proportion of loans with loan-to-value ratios greater than 90 percent continued to decline, dropping sharply from the 2008 level of 18 percent to 8 percent in 2009. (See Figure 13.)

Business Volumes

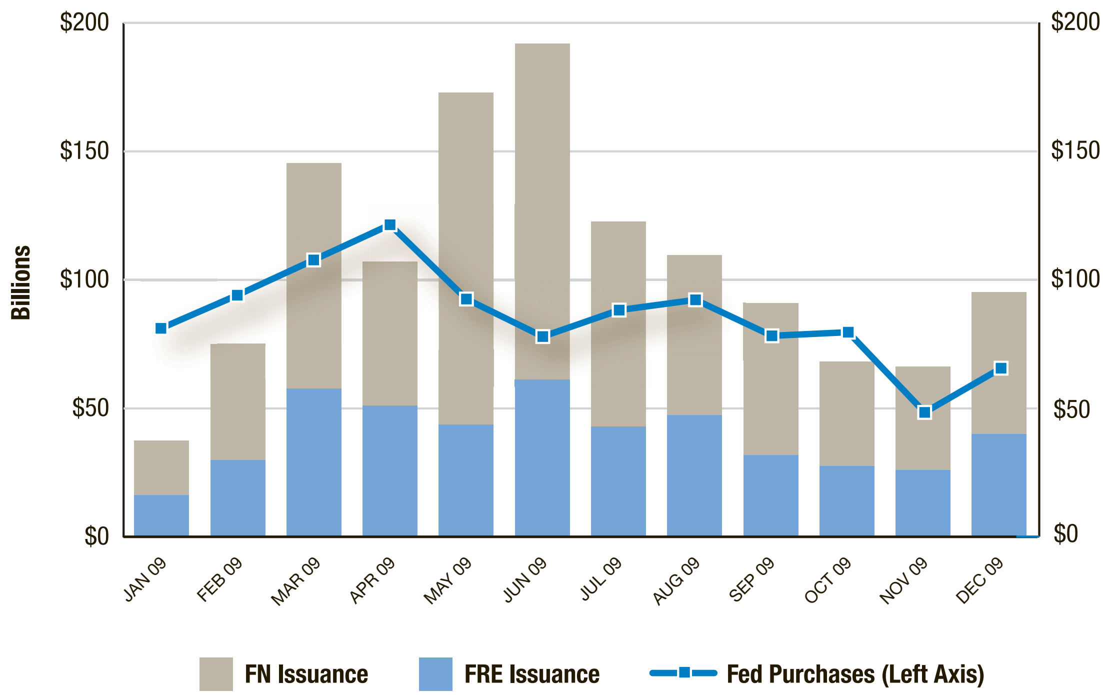
Fannie Mae and Freddie Mac continued to provide substantial liquidity to the secondary mortgage market in 2009. Enterprise new business acquisitions (defined to include cash purchases from lenders, swaps of whole loans for MBS, and purchases of MBS) represented more than 76 percent of total single-family originations, up from 73 percent in 2008. The Enterprises' high market share reflected the trend of a high level of conventional conforming loans in the primary market in 2009.

Figure 14 • Enterprise Growth in Business Volume



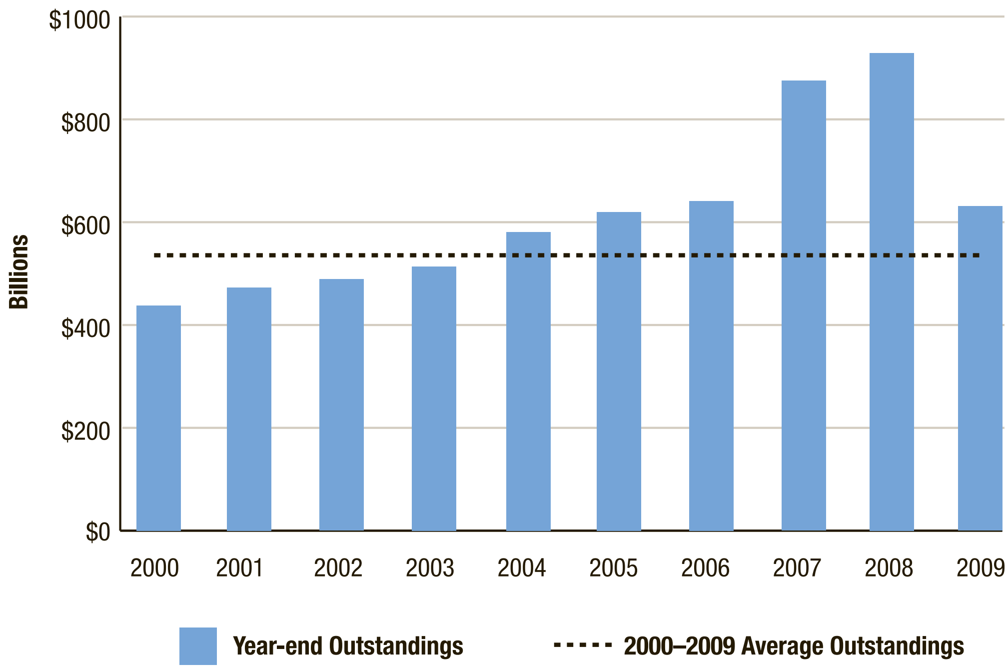
Sources: Fannie Mae and Freddie Mac

Figure 15 • Enterprise MBS Issuance and Federal Reserve Net Purchases (billions)



Sources: Fannie Mae, Freddie Mac, and Federal Reserve

Figure 16 • FHLBank Advances Outstanding



Source: Office of Finance, Federal Home Loan Bank System

Fannie Mae and Freddie Mac each reduced its mortgage asset holdings in 2009, primarily as a result of increasing liquidations. The composition of both Enterprises' mortgage asset investments also changed in 2009. At year end, Fannie Mae showed a slight decrease in its holdings of single-family loans, private-label MBS, and MBS it issued. Freddie Mac showed a noticeable decline in its holdings of private-label MBS, which was offset by a higher volume of whole loans. At year end, MBS guaranteed by Freddie Mac had declined to less than half of its mortgage asset holdings.

As a result of the increase in single-family mortgage originations in 2009, issuances of MBS guaranteed by each Enterprise increased sharply. Liquidations of outstanding MBS increased as well. Fannie Mae MBS issuances increased almost 50 percent. For the year, Fannie Mae showed an increase in its net MBS outstanding of 6.3 percent, but that was less than the 8 percent increase the year before. (See Figure 14.) Freddie Mac increased its MBS issuances by about a third. For the year, Freddie Mac showed a 6.6 percent increase in its net MBS outstanding, up from growth of 1.5 percent in 2008.

The federal government was the dominant investor in Enterprise MBS in 2009. In January, the Federal Reserve began its $1.25 trillion program to purchase MBS guaranteed by the Enterprises and Ginnie Mae. Through January 6, 2010, the Federal Reserve had purchased $1.03 trillion net of Enterprise MBS. (See Figure 15.) Those purchases, which exceeded Enterprise issuances during several months, were concentrated in MBS backed by 30-year mortgages and included securities with a range of coupon rates. The MBS purchases by the Federal Reserve and the Treasury in 2009 occurred as foreign investment in Enterprise MBS declined. At the end of 2009, the federal government was one of the largest holders of MBS guaranteed by the Enterprises and Ginnie Mae.

As a result of Fannie Mae's and Freddie Mac's MBS issuance activity, each Enterprise's book of business—mortgage assets held for investment plus MBS held by others—grew in 2009, though at a slower pace than in 2008. Fannie Mae grew its total book of business by 3.9 percent to $3.2 trillion, as compared with 8.2 percent the previous year. Freddie Mac's total book of business grew 2 percent to $2.3 trillion, as compared with 5 percent in 2008. Despite those slower growth rates, the Enterprises' share of the total mortgage market increased. Fannie Mae and Freddie Mac ended the year holding and guaranteeing the highest level of the nation's outstanding residential mortgage debt ever, approximately 47 percent.

The volume of advances extended by the Federal Home Loan Banks (FHLBanks) was down sharply in 2009. At year end, advances outstanding were down 32 percent to $631 billion, the lowest year-end volume since 2005—two years before the onset of the financial crisis. (See Figure 16.) A number of factors contributed to the decline in the volume of advances outstanding, including repayment of maturing short-term advances, reduced demand due to the economic recession, and FHLBank member institutions' access to cheaper alternative sources of funds, such as deposits.

Report of the Annual Examination of Fannie Mae (Federal National Mortgage Association)

Examination Authority

This Report of Examination contains the results and conclusions of FHFA's 2009 annual examination of the Federal National Mortgage Association (called Fannie Mae, or the Enterprise) performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 as amended (12 USC § 4517(a)). FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to report examination results and conclusions to the Board of Directors and Congress is known as GSEER, which stands for Governance, Solvency, Earnings, and Enterprise Risk (Enterprise Risk comprises credit, market, and operational risk management).

2009 Examination Scope

In 2009, FHFA focused on monitoring rapidly changing market conditions and the economy, as well as the response by management and the Board to these changes, and their effect on the Enterprise's risk profile and condition.

The remaining time was used for examination activities that assessed actions of the Board of Directors; quality of executive management; Enterprise-wide risk management and audit functions; accounting estimates and their effect on disclosures, earnings, and loss reserves; key model performance; loss mitigation activities, and counterparty exposure; liquidity, interest rate risk profiles and risk management practices; the internal control environment; remediating emerging operational problems relating to financial reporting and mortgage securitization; and risks in information technology, data quality, and business continuity.

Rating

Fannie Mae's composite rating is **critical concerns**. Enterprises with critical safety and soundness concerns exhibit severe financial, nonfinancial, operational, or compliance weaknesses. An Enterprise with this rating requires more than normal supervision to ensure deficiencies are addressed. Definitions for all composite ratings can be found in FHFA's *DER Supervision Handbook*.

FHFA first assigned this rating at mid-year 2008, which was a contributing factor in the appointment of FHFA as conservator. The appointment of FHFA as conservator, Treasury financial support, Federal Reserve actions, and new management at the Enterprise have stabilized the Enterprise's condition. While the critical concerns rating at year-end 2009 reflects the fact that the Enterprise is not capable of currently operating without government assistance, FHFA also acknowledges the strides the Board, management, and staff of Fannie Mae have made under conservatorship to help stabilize the Enterprise and maintain its support of the secondary mortgage market.

Examination Conclusions

Fannie Mae's composite critical concerns rating arises mainly from continuing credit losses experienced throughout 2009, as well as forecasted losses yet to be realized. FHFA expects those losses to be the result of increasing delinquencies on mortgages owned or guaranteed by the Enterprise and worsening loss severities due to depressed housing prices nationwide, but particularly in certain locales, such as California, Florida, Arizona, and Nevada. In addition, key counterparties weakened, particularly mortgage insurers (to which Fannie Mae is heavily exposed). The rate of serious delinquencies in the multifamily portfolio more than doubled in 2009.

It is not only credit risk that raises critical concerns. There is a high level of operational risk at Fannie Mae, as evidenced by operational incidents in mortgage securitization in 2009 and also in the area of financial reporting controls, where an accumulation of errors in estimates of credit losses resulted in a material weakness.

It is not only credit risk that raises critical concerns. There is a high level of operational risk at Fannie Mae…

Operational challenges were intensified by the Administration's Making Home Affordable (MHA) modification and refinance programs, other loss mitigation initiatives, and increasing volumes of real estate owned (REO). High turnover of executive and senior management in critical areas of loss mitigation and asset disposition is a concern, and the adequacy and level of staffing at the National Servicing Organization need to be strengthened.

Market risk is also a critical concern. The risks of funding a $773 billion mortgage portfolio with debt and derivatives are inherently large in normal times. But a stressed credit environment, along with government policies that significantly affect mortgage prices, has played havoc with mortgage prepayment models and rendered standard interest rate risk metrics unreliable without significant on-top adjustments from management, making more important the process of establishing appropriate limits for market risk. (When model results produce an unacceptable level of uncertainty, management often uses actual, observable results to alter model results "on top" to better reflect actual market activities.) Indeed, several management interest rate risk limits were breached during 2009.

Liquidity was strengthened with purchases of Treasury bills to cover half of the Enterprise's 30-day net cash needs. Liquidity risk can be further reduced by continuing to implement practices recommended by an expert liquidity consultant recently retained by management.

Fannie Mae remains dependent on support from the U.S. Treasury. Financial results in 2009 worsened relative to the weak performance reported in 2008; net losses deepened to $72 billion from $58.7 billion in 2008. As a result, Fannie Mae's accumulated deficit (negative retained earnings) amounted to $90.2 billion at year-end 2009.

The Board of Directors and management achieved notable successes during 2009 but continue to face significant governance challenges. The Board is actively addressing the Enterprise's many problems and has adopted appropriate governance practices. Continuing changes in management and organizational structures pose challenges to forming a cohesive management team and adversely affect succession planning, which could expose the company to risk.

Model risk is the risk that model output does not match actual performance, and at Fannie Mae, this risk remains high. During 2009, management made substantial progress updating and improving key credit models, but challenges remain. House price forecasting models remain a concern and prepayment modeling continues to be challenging in this environment.

Governance

Governance is rated **significant concerns**. The governance-related issues the Board and management are working to resolve are complex and require heightened supervision to monitor and evaluate.

Board Supervision

In 2009, the Board of Directors achieved notable successes but continues to face significant challenges. The Board is actively addressing the Enterprise's many problems and has adopted appropriate governance practices. The Board and its committees are performing their duties and are working collaboratively with FHFA as conservator.

Abrupt change at the chief executive officer and executive levels is disruptive for any company, and such changes have been disruptive for the Enterprise. Fannie Mae has had a total of three chief executive officers, three chief financial officers, three chief risk officers, two general counsels and an interim general counsel, two executive vice presidents leading its single-family business, two executive vice presidents leading its capital markets group, and two chief technology officers, as well as departures by various other key members of senior management since the third quarter of 2008.

The chief executive officer resigned in April 2009 to become Assistant Secretary of the Treasury for Financial Stability, fewer than eight months after being appointed to the Enterprise by FHFA as conservator. The chief risk officer, general counsel, and the chief technology officer were new to the Enterprise in 2009, joining the company under the previous chief executive officer.

The Board has met its responsibility for hiring senior executive officers, subject to the conservator's reservations of authority under the November 2008 delegations of authority. But substantial changes at the senior executive level warrant close supervisory and Board attention.

The Board and management took steps to address the 2008 examination findings about shortcomings in reporting to the Board. Corrective actions included amendments to Board-level operating policies and procedures, improved quality and completeness in Board materials, and new dashboard-style reports.

Management, however, has not adopted corporate policies on Board reporting. Risk reporting continues to lack focus and does not concisely convey information about business unit risk. Several officers, notably the chief risk officer, are working closely with the Board and individual directors to enhance and refine risk reporting.

Abrupt change at the chief executive officer and executive levels is disruptive for any company, and such changes have been disruptive for the Enterprise.

Management Supervision

Enterprise management experienced significant change during the examination year. The chief executive officer and 10 of the 13 members of the senior executive team are either new to the company or in a new position. Moreover, in addition to uncertainties associated with the conservatorship, the Enterprise is in the midst of significant organizational change taking place in several divisions. This level of change poses a considerable challenge to the senior executive team and will receive close supervisory attention.

Succession Planning/Human Capital Needs

In 2008, FHFA raised concerns about succession planning and strengthening management of the Enterprise. During 2009, management improved succession planning. Human resources staff actively identifies and develops internal personnel to fill key positions, which is increasingly important in the wake of last year's management transition and staff attrition.

Executive and senior management are responsible for addressing the human capital needs of the respective divisions. Management has taken steps to address risks associated with losing people serving in important positions, known as "key person risk." But the Enterprise remains vulnerable to the loss of key employees serving in critical positions because of ongoing organizational changes, uncertainties over compensation-related matters, and the future status of the Enterprise.

Reporting Practices

Executive and senior management continue to produce dense, highly detailed reports that may not facilitate efficient decision-making. This practice is pervasive among the business divisions, although certain divisions have enhanced reporting practices. FHFA instructed Enterprise management to evaluate and improve existing reporting practices.

Consistent with FHFA regulations and examination guidance and the Board's operating policies, management reports should facilitate decision-making by focusing attention on high-priority risks. Without cogent summaries and recommendations, the details may not serve the needs of directors, executives, and senior officers.

Mortgage Fraud

Management implemented a framework for mortgage fraud detection and reporting, but it suffered from several weaknesses. FHFA required enhancements to mortgage fraud exposure reporting and revisions to the Enterprise's policies and procedures. Enterprise management has begun but not completed remediating these problems.

Internal Audit

The previous chief audit executive did not effectively manage the department's resources and did not achieve the stated objectives of the department reorganization. The internal audit department experienced significant upheaval during the course of the year because of major changes in the chief audit executive and senior management personnel, expanded audit scope and staff, several internal investigations, and revised audit methodologies.

FHFA required the chief audit executive to address skills assessments, compliance with the Enterprise's code of conduct, audit committee approvals, and resource certification. The current chief audit executive is now addressing those issues. In addition, the internal audit department completed a revised audit plan approved by the audit committee of the Board and reviewed by FHFA.

Enterprise-wide Risk Management

The Enterprise risk management division experienced significant change during 2009. The company hired a new chief risk officer during the first half of 2009, and the chief risk officer began restructuring the risk function. The result was significant change in senior management and division personnel, assigned responsibilities, risk identification, and risk management practices.

Change on this scale is disruptive and can expose the company to gaps in risk management resulting from uncertainties among personnel about the scope of their duties and responsibilities. Restructuring and repopulating the division is in the long-term interests of the Enterprise, even though full implementation of the chief risk officer's initiative will take time to complete.

Accounting and Disclosure

The Enterprise will need to continue to provide a high level of resources and executive support to the accounting and controls area to ensure accurate accounting estimates, comply with financial reporting requirements, and fulfill the information needs of the conservator. The Enterprise had to deal with a combination of intense market forces, major changes to generally accepted accounting principles, and new government policies and programs with unknown financial impacts.

Accounting policy and financial reporting issues of 2009 included:

Policy coordination and disclosure. As a result of the conservatorship, FHFA initiated a collaborative process designed to address areas where new accounting policies should be coordinated and made consistent between Fannie Mae and Freddie Mac. FHFA expects that the level of cooperation provided this past year will continue.

The earliest example of this collaborative process was the resolution of whether the Enterprises' financial guarantees would continue to be eligible for a scope exception from the derivative accounting literature. The Enterprise worked with FHFA to address this important issue. Subsequently, the process was used to successfully address various issues that arose in connection with consolidation accounting.

Fannie Mae and Freddie Mac provided comment letters to the Financial Accounting Standards Board (FASB) after getting FHFA input in the context of the conservatorship. These coordinated efforts were important to ensuring appropriate consistent application of accounting policies at both Enterprises. Given the challenges facing the Enterprise and the conservatorship, disclosure risk has increased. Prior to releasing its quarterly and annual filings, Fannie Mae addressed FHFA's comments on its disclosures.

External audit. FHFA meets regularly with Deloitte & Touche LLP to address control weaknesses and other significant accounting and auditing issues. Management identified a material weakness in disclosure controls and procedures that was confirmed by Deloitte. As explained in the Form 10-K, through performance of various audit procedures and activities, including meetings with FHFA, Deloitte was able to complete its audit and issue an unqualified opinion on the 2009 financial statements, although the material weakness made necessary an adverse opinion on the company's internal controls over financial reporting.

Consolidation project. In 2009, the Enterprise made significant progress in adopting the new consolidation accounting standard issued by FASB. But due to the project's size, time line, and complexity, some risk remained at year end in connection with timely and controlled implementation of the project.

The new accounting standard requires the consolidation of a majority of loans held in Enterprise-guaranteed MBS trusts, which until January 1, 2010, were accounted for on an off-balance sheet basis. It also eliminates the need for recognizing an adjustment to fair value when delinquent loans are removed from a trust. Enterprise management worked effectively with FHFA and Freddie Mac to identify and address significant policy application differences. This included drafting several letters and preparing presentations for Securities and Exchange Commission (SEC) and FASB staff, which simplified the implementation and reduced the risk to the tight implementation time line. FHFA continued to monitor this project to its conclusion with the issuance of financial statements at the end of the first quarter of 2010.

Credit loss reserves. Safety and soundness require a high degree of transparency to ensure that drivers of credit losses have been appropriately factored in to reserve computations. Although the current volatile credit environment makes accurate accounting estimates difficult, the Enterprise has made progress towards that goal. During 2009, Fannie Mae implemented a new credit loss reserve model that improves transparency for the major credit loss drivers and assumptions. But loss mitigation data quality and computational issues arose related to loans in trial modification during 2009.

Fair-value accounting and disclosures for investment securities. Accounting policy and disclosure risk has been reduced in this area. During 2009, Fannie Mae enhanced its fair-value disclosures in line with the new FASB guidance. FHFA noted opportunities to enhance disclosure and income statement presentation enhancement after reviewing the Enterprise's first efforts to adopt the new other-than-temporary impairment standard. The disclosures have since been improved and the income statement presentation has been appropriately revised. FHFA did not note any other significant issues with the Enterprise's application of the new standard.

The related FASB guidance regarding accounting for other-than-temporary impairment reduced by billions of dollars the Enterprise's reported net loss for 2009 and permitted recapture of a portion of losses previously recorded in other-than-temporary impairment.

Low-income housing tax credits and deferred tax assets. During the course of the year, there was uncertainty surrounding the fair value of the Enterprise's investments in low income housing tax credit entities. Fair value of these investments rested on the value of the tax credits to the Enterprise, either on its own tax return or through sale to a potential buyer.

Fannie Mae is not expected to have any taxable income in the foreseeable future. So, on February 18, 2010, after extensive discussions with the Treasury Department, FHFA informed Fannie Mae that it may not sell or transfer the investments. The Enterprise has since written off the value of the investments.

The Enterprise also had a deferred tax asset on its balance sheet at year end related to unrealized losses recorded for certain available-for-sale securities. FHFA's review of the process for accounting for the deferred tax asset indicated the carrying amount was appropriate based on management's assertions.

Solvency

FHFA previously determined that capital classifications would be suspended during conservatorship. Consequently, throughout 2009, FHFA did not issue a capital classification for Fannie Mae. During conservatorship, Fannie Mae's positive net worth capital position (in terms of generally accepted accounting principles, or GAAP) has been supported by the United States Treasury under the Senior Preferred Stock Purchase Agreement.

The preferred stock agreement was amended twice during 2009. In May, the first amendment increased (1) the cap on the Treasury draw from $100 billion to $200 billion; (2) the mortgage asset limit by $50 billion to $900 billion; and (3) the maximum indebtedness from 110 percent of indebtedness at June 30, 2008, to 120 percent of the total mortgage asset limit. This amendment also included other technical changes to the initial agreement.

In December 2009, the second amendment allowed the cap to increase to cover the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010, 2011, and 2012, less any net worth surplus remaining as of December 31, 2012. The amendment also required the annual 10 percent reductions in the mortgage asset limit be calculated based on that limit, rather than the actual mortgage asset balance on December 31 of the preceding year (resulting in a portfolio limit of $810 billion at December 31, 2010). Additionally, the second amendment postponed until 2011 the implementation of a quarterly commitment fee to be paid by Fannie Mae to Treasury and included other technical changes.

During 2009, FHFA worked with Fannie Mae's capital team to reestablish the practice of completing quarterly capital plans, which had been suspended for the first two quarters of the conservatorship. Fannie Mae has submitted quarterly capital plans since the second quarter of 2009.

The plans have included Fannie Mae's discussions of its continuing development of an economic capital model and issues related to the process of emerging from conservatorship. These are ongoing efforts, and FHFA has noted improvements in the plans each quarter.

FHFA has requested that management continue to incorporate enhancements and improvements to the capital plan. FHFA staff met several times with Fannie Mae's staff during 2009 to discuss and review modeling methodologies under consideration. These regular meetings will continue in 2010 as FHFA develops a new stress test model and incorporates lessons learned from all parties in the development process.

Under the terms of the Treasury agreement, total draws through December 31, 2009, on the Treasury's Senior Preferred commitment totaled $59.9 billion. Fannie Mae requested a $15.3 billion draw from the Treasury for the period ending December 31, 2009, increasing its total draw to $75.2 billion.

Significant credit-related expenses were the primary contributing factors for the need to draw on the Treasury facility. In addition, in 2009, Fannie Mae's draws were increased by the decision to write off the low income housing tax credit investments on the financial statements. Draws in 2010 will be reduced somewhat because of the initial transition adjustment from adopting the consolidation accounting standard on January 1, 2010.

Earnings

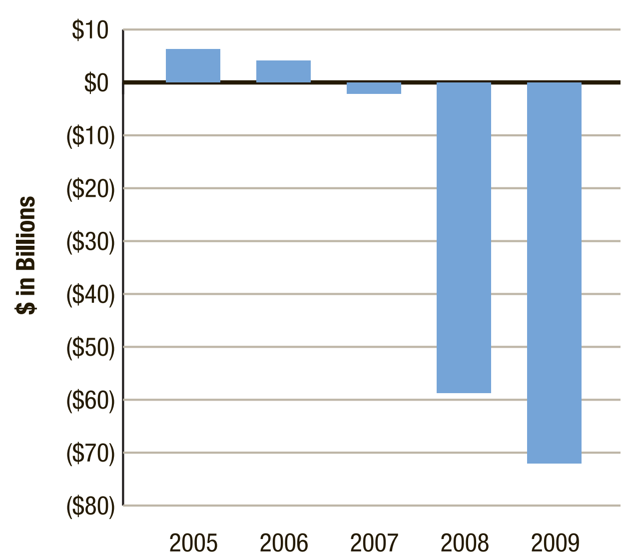
Fannie Mae's financial performance, absent financial support from the U.S. Treasury, is rated **critical concerns**. Net losses deepened in 2009 to $72 billion from $58.7 billion in 2008, illustrating some of the challenges the Enterprise faces in returning to financial health. Fannie Mae's accumulated deficit (negative retained earnings) increased to $90.2 billion at year-end 2009. (See Figure 17.)

Continued widespread economic difficulties contributed to significant increases in mortgage delinquencies. The steep increase in delinquencies raised expectations of future credit losses, driving substantial increases in loan loss reserves.

Management increased the loan loss reserve by $40 billion during the year to $65 billion at the end of 2009, increasing credit-related expenses from already elevated levels in 2008. (See Figure 18.)

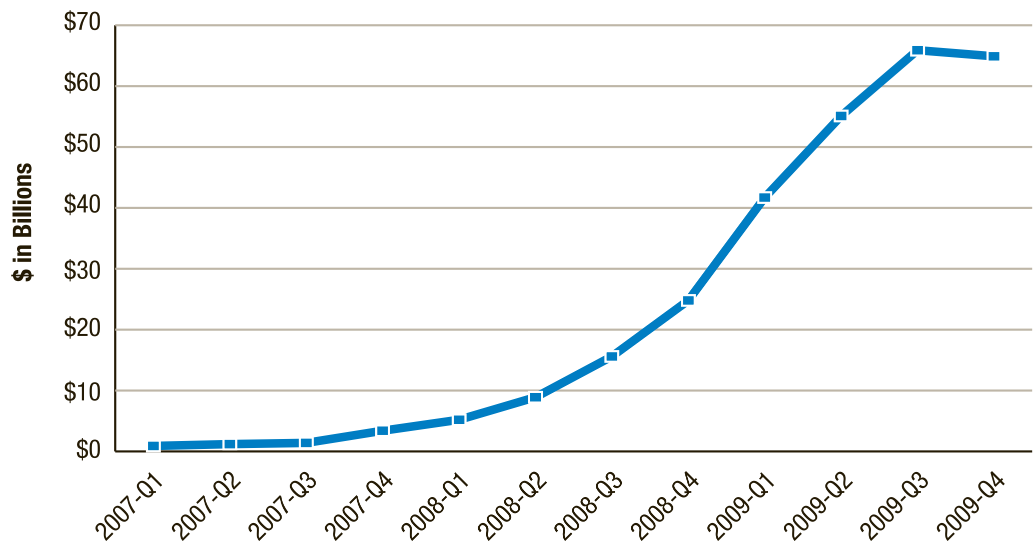
Substantially higher credit-related expenses and losses more than offset strong revenue growth, lower mark-to-market losses, and lower tax expenses. (See Figure 19.)

Figure 17 • Fannie Mae Annual Net Income



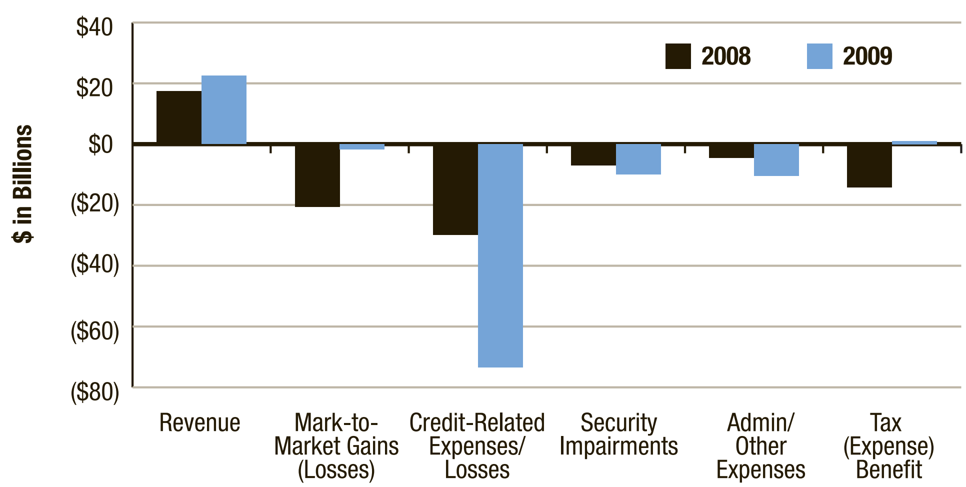
Source: Fannie Mae Form 10-K

Figure 18 • Fannie Mae Credit Loss Reserve



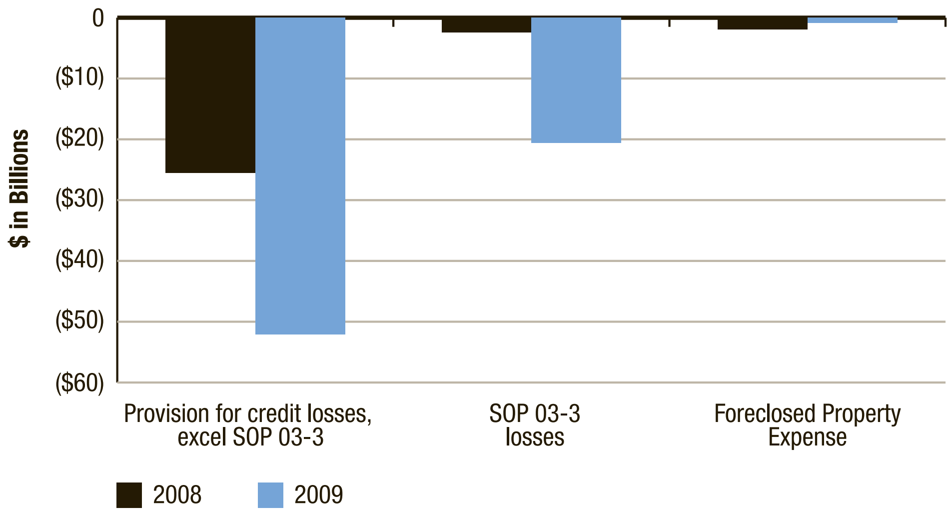
Source: Fannie Mae Form 10-K

Figure 19 • Fannie Mae Earnings Detail



Sources: Federal Housing Finance Agency and Fannie Mae Form 10-K

Figure 20 • Fannie Mae Credit-Related Expenses and Losses



Source: Fannie Mae Form 10-K

Credit-Related Expenses and Losses

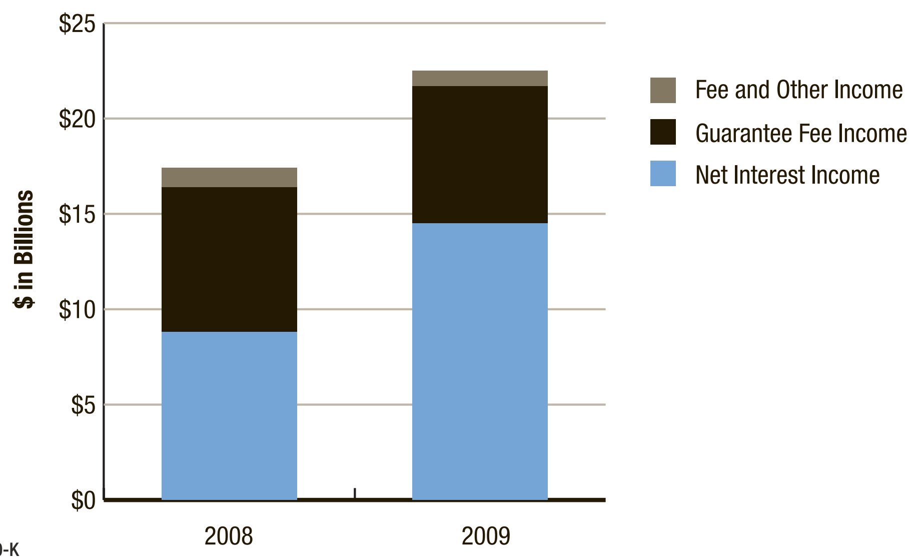
Credit-related expenses and losses continued to dominate financial performance, overshadowing positive changes in other components of earnings. The provision for credit losses doubled in 2009 to $52.1 billion; this was the primary driver of increases in credit-related expenses. In addition, modifying mortgages increased accounting losses on loans purchased from MBS trusts by $18 billion. (See Figure 20.)

Revenue

Earnings benefited from growth in net interest income on portfolio investments, which offset a slight decrease in guarantee fee income. Net interest income increased by $5.7 billion, or 65 percent, over the prior year, primarily because the cost of debt funding was lower in 2009. (See Figure 21.)

Lower benchmark Treasury rates and lower debt

Figure 21 • Fannie Mae Revenue



Source: Fannie Mae Form 10-K

spreads to Treasury, attributed to the Federal Reserve's purchases of Enterprise debt, decreased the cost of debt funding.

In the credit guarantee business, Fannie Mae's efforts to improve the credit quality of the guarantee book resulted in lower guarantee income as higher quality loans with lower guarantee fees accounted for a greater proportion of new business. (See Figure 22.) Lower guarantee income was also largely driven by lower amortization of deferred income in 2009, as a sharp decline in interest rates in the fourth quarter of 2008 accelerated recognition of deferred amounts into income.

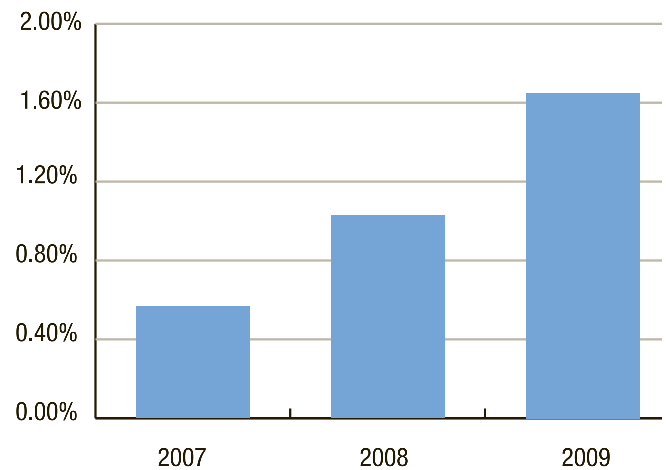
The shift in the mix of new business offset growth in the volume of credit guarantees. Fannie Mae sustained a high market share of MBS issuance because issuers of private-label MBS did not return to the secondary mortgage market during the year.

Mark-to-Market Gains/Losses

A decline in mark-to-market losses mitigated net losses in 2009. (See Figure 23.) Derivative losses were $9.1 billion lower in 2009 at $6.4 billion as interest rates remained relatively stable in 2009. A steep drop in interest rates during the second half of 2008 caused substantial mark-to-market derivatives losses in the prior year.

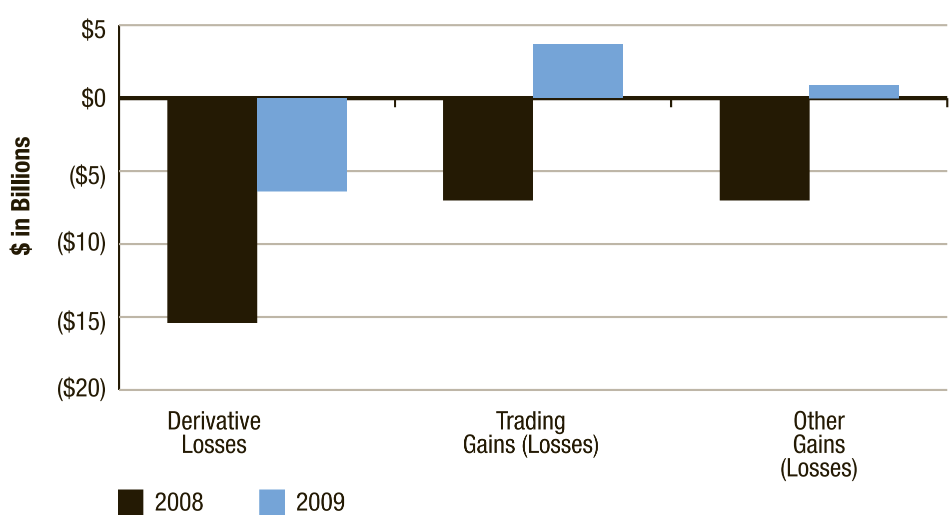
The Federal Reserve's purchases of MBS during 2009 tightened credit spreads, resulting in higher prices for these securities. Prices of commercial MBS also improved during the year. Consequently, Fannie Mae reported trading gains of $3.7 billion

Figure 22 • Fannie Mae Net Interest Yield



Source: Fannie Mae Form 10-K

Figure 23 • Fannie Mae Mark-to-Market Value Gains (Losses)



Source: Fannie Mae Form 10-K

in 2009, compared to trading losses of $7 billion reported for 2008, when commercial MBS prices plummeted.

Security Impairments

Security impairments increased substantially in 2009 to $9.9 billion from $7 billion in the prior year; however, earnings in 2009 benefited from a change in impairment accounting policies effective April 1, 2009. Starting with the second quarter of 2009, only the credit portion of other-than-temporary impairments was recognized in earnings.

Other Expenses

In the fourth quarter of 2009, Fannie Mae wrote off the carrying value of its low income housing tax credit partnership investments, recording an impairment charge of $5 billion due to the inability to sell or transfer these investments.

Provision for Federal Income Taxes

Financial results in 2009 were helped by a tax benefit of $1 billion in 2009, a result of the Enterprise's ability to carry back 2009 net operating losses to prior years. By contrast, in 2008, Fannie Mae reported a provision for federal income taxes of $13.7 billion after establishing a partial valuation allowance against deferred tax assets in the third quarter of 2008.

Summary

Fannie Mae's financial flexibility remains limited without support from the Treasury Department. The need to build loan loss reserves, charges to purchase delinquent loans out of trusts, and impairments of private-label MBS were the primary drivers of Fannie Mae's increase in accumulated deficit (negative retained earnings) of $63 billion in 2009.

Outlook

2010 is likely to be another difficult year for financial results. In the short-term earnings are likely to be influenced by a material decline in revenue and significant uncertainty about credit-related expenses.

Changes in accounting for securitizations and special purpose entities (consolidation accounting requirements) are expected to reduce revenue in 2010 as Fannie Mae stops accruing interest income on loans that are 60-plus days delinquent. Credit losses are likely to remain substantial as delinquent loans transition to some form of resolution, in some instances triggering charge-offs. Consequently, financial results will be greatly affected by the by success or failure of loss mitigation initiatives.

Credit Risk Management

Credit risk remains rated **critical concerns** as economic conditions continue to affect credit performance in the single- and multifamily business units and the number of weakened and failed counterparties grows. Levels of seriously delinquent single-family mortgages, REO properties, and credit losses rapidly increased during 2009 as a result of historic house price declines and rising unemployment.

Weakened multifamily market fundamentals, including continued unemployment, rising vacancy rates and increased rent concessions are pressuring the net operating income of property owners and their ultimate ability to service existing debt. Reduced multifamily property values, reflected in rising capitalization rates, have made refinancing more difficult. Both the single- and multifamily business units have substantially increased loan loss reserves because of expectations of future credit losses.

During 2009, the Enterprise enhanced its risk management function, especially in the areas of business unit reporting, corporate credit policies and credit delegations of authority. Business unit risk officers (single- and multifamily) reporting to Enterprise risk management appropriately escalate key issues for discussion by the corporate credit risk committee.

Underwriting and eligibility changes that became effective in 2008 and early 2009 have positively affected the quality of new acquisitions. Credit and portfolio management has developed servicing protocols, initiatives and pilots to minimize credit losses. Credit and portfolio management has maintained a greater on-site presence with servicers.

The governance process to approve and vet new initiatives needs to be enhanced. High turnover of executive and senior management in the critical areas of loss mitigation and asset disposition is troubling.

Opportunities for further improvement still exist, however. The governance process to approve and vet new initiatives needs to be enhanced. High turnover of executive and senior management in the critical areas of loss mitigation and asset disposition is troubling. Additionally, examination findings indicate that the level of staffing at the National Servicing Organization (NSO) needs to be increased to deal with rising delinquencies.

Multifamily is proactively monitoring at-risk loans that mature in the near term and may face difficulty refinancing. Management is appropriately focused on the level of problem assets. Examination findings indicate that watch list assets are well managed by qualified individuals with significant commercial lending or workout experience, but a need exists for improved information technology investments to more effectively support the asset management function. Efforts are underway to identify an appropriate asset management system to allow for better efficiency and reporting on the multifamily book. Risk management took steps to improve its identification of counterparty exposure and implemented measures to mitigate that exposure, including requests for collateral.

Single-Family Loans

The seriously delinquent rate of single-family loans increased from 2.42 percent to 5.38 percent from the end of 2008 to year-end 2009, an increase of 122 percent. Certain risk segments are driving the increase in seriously delinquent loans, including Alt-A, interest-only, loans made in 2006 and 2007, and loans from California, Florida, Nevada, Arizona, and Michigan.

The current economic environment is also pressuring performance of more traditional mortgages, including loans with lower combined original loan-to-value ratios, higher credit scores, fixed rate amortization and more seasoned loans that were expected to have a lower propensity for default. The 2008 vintage of loans, also showing signs of stress, had a seriously delinquent rate of 3.98 percent at year end. The rapid increase in the seriously delinquent rates is also attributable to Home Affordable trial modifications that have not been converted to permanent modifications. Loans in trial modifications are classified as delinquent until they convert to permanent status, even when the borrower's payments are current.

Single-family credit losses doubled from $6.5 billion at the end of 2008 to $13.4 billion at year-end 2009. Credit losses are concentrated primarily in California, Nevada, Arizona, Florida, and select Midwest states (Illinois, Indiana, Michigan, and Ohio), which accounted for approximately 72 percent of credit losses in 2009. Moreover, the 2005 to 2008 vintage loans accounted for approximately 90 percent of credit losses in 2009.

REO inventory increased from 63,538 properties at year-end 2008 to 86,155 properties at the end of 2009, a 36 percent increase. The 2009 increase in REO is substantially less than the 88 percent increase in 2008. The slowed acceleration in REO inventory growth is a result of HAMP efforts, as well as growing aged inventory of seriously delinquent mortgages that have been slow to transition to alternative foreclosure options or other liquidation processes.

Management has significantly increased staffing at the National Underwriting Center to aid in file reviews for compliance with charter requirements and selling and servicing guide requirements. Enforcement of outstanding repurchases by seller-servicers is critical to managing credit losses.

The single-family loan loss reserve increased steadily during 2009, rising from $24.6 billion at year-end 2008 to $62.8 billion at the end of 2009, an increase of 155 percent. In the fourth quarter of 2009, the newly developed Econometric Loss Reserve Model was used to establish the quarterly provision for the loan loss reserves. The model is used to determine the loan loss reserve provision for the retained portfolio, as well as the guarantee loans in MBS. It estimates probability of default at the loan level given several factors, including origination year, mark-to-market loan-to-value, delinquency status, and loan product type. This has minimized the use of on-top model adjustments and enhanced model granularity and transparency. Management worked during 2009 to address outstanding issues related to the 2008 loan loss reserve targeted examination. FHFA continues to evaluate the effectiveness of these remediation efforts.

In 2009, actions to improve performance of new purchases, including the release of the Desktop Underwriter 8.0 system, changes to project standards, underwriting, and eligibility positively affected the quality of new acquisitions. In March 2009, the single-family unit rolled out a new selling guide that incorporated announcements through March 2009 and is organized and written in a more user-friendly way. The unit also has initiated the "Loan Quality Initiative," a plan focused on enhancing data validation capabilities to strengthen loan quality at delivery.

The Enterprise has undertaken significant efforts to minimize credit losses and support MHA and other administration programs. Saving borrowers from default and keeping them in their houses when possible is an effective means of reducing credit losses. In order to do this, the Enterprise is instilling greater discipline among servicers by increasing servicer management and engagement, establishing "high touch" servicing protocols for working with their seriously delinquent borrowers, and increasing their reviews of delinquent loans to help identify loans that fall short of their underwriting and eligibility requirements.

During 2009, the Enterprise devoted a significant amount of resources to HAMP in support of servicer execution and as program administration agent for Treasury. High turnover of executive and senior management in critical areas of loss mitigation and asset disposition creates concerns.

In 2009, credit portfolio management experienced key staffing departures, including the former NSO senior vice president and other NSO vice presidents and directors. The National Property Disposition Center and National Underwriting Center groups within credit portfolio management also experienced senior level attrition. Most senior positions have been filled permanently, but management needs to continue to focus on retaining talent in key leadership roles. By the end of the year, credit portfolio management had hired an executive vice president, while NSO added more than 150 new full-time employees and contractors. In addition, the National Property Disposition Center and National Underwriting Center added more than 230 new full-time employees and contractors.

Credit portfolio management has been active in developing and piloting additional workout options, including foreclosure alternatives, rental options for REO, and a compliment of REO financing options. Credit portfolio management is also focused on recovering cash from lenders on representation and warranty violations and collections on defaulted loans from mortgage insurance companies.

In June 2009, the government programs and new initiatives team was formed. The team is responsible for initiating, developing, and launching new homeowner retention and foreclosure alternative solutions that are ultimately deployed by servicers. As the government programs and new initiatives team continues to staff and build out its infrastructure to support the development of pilots and new initiatives, it is crucial that policies and procedures be documented to support a sound governance structure.

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During late September and early October 2009, FHFA conducted a targeted examination of NSO. The examination focused on the level and adequacy of staffing at NSO given recent reorganizations in that area, including a review of NSO policies, procedures, and plans to ensure the NSO is adequately staffed and able to carry out its mission of reducing defaults.

Staffing at NSO needs to be increased to deal with rising delinquencies. The current staffing model needs enhancing and should incorporate forecasted workloads into required staffing needs at least six months into the future. A comprehensive training program incorporating the needs of new and existing employees should be developed to combat high levels of attrition. Policies and procedures are needed for new groups within credit portfolio management, including government programs and new initiatives. Management must develop comprehensive policy and procedures to cover the transfer of servicing to specialty servicing. A lack of adequate staffing stresses Enterprise operations and also adversely affects the ability to monitor the performance of servicers as key players in reducing delinquencies and ultimately credit losses.

Multifamily

Credit risk in the multifamily business line continues to rise as market fundamentals weaken. Vacancy rates rose above 8 percent and are mainly attributable to increased levels of completions over the past few years and continuing historic levels of unemployment. Property owners lowered rents by as much as 6.3 percent to maintain occupancy levels, and this has had a negative effect on net operating income and the ability for property owners to service existing debt.

In addition, concessions rose to more than 7 percent by year-end 2009. Capitalization rates are increasing and were 7.4 percent by year end. The combination of these factors resulted in lower property values, making it difficult for owners to sell or refinance and affecting multifamily production volume.

Weakening market fundamentals negatively affected the performance of the multifamily book. The rate of serious delinquency more than doubled in 2009, rising from 0.3 percent at the end of 2008 to 0.63 percent at year-end 2009.

The rise in delinquencies, watch list assets, and REO inventories is likely to continue into 2010. A rise in losses, defaults, and other problem assets, along with increasing capitalization rates, necessitated additional provisions to the multifamily portion of the loss reserve. The Enterprise increased its loan loss reserve for multifamily credit by $2 billion to cover these expected increases. For 2009, actual credit losses were $220 million.

To assess the Enterprise's ability to manage the increasing level of problem assets, FHFA examined the asset management function. The examination found that oversight of watch list assets is well managed by qualified individuals with significant commercial lending and workout experience. The risk rating engine closely aligns with systems used by other large financial institutions.

Although the asset management infrastructure is well established, it remains hampered by automated systems that need to be upgraded or replaced. The need for better information technology systems for higher risk assets is a result of the Enterprise's failure to invest sufficient resources to support the business unit in providing and reporting on reliable and accurate data in an efficient manner. Given the current and expected level of problem assets, the Board and management must support this critical function by ensuring the business unit has the resources, such as staffing, technology, and premises, to manage the volume of problem assets. Loss mitigation has secured approval to increase staffing for watch list and special asset management by as much as 50 percent in 2010.

Fannie Mae is monitoring at-risk loans with maturity risk. These loans may not have the ability to either pay out or refinance because of declines in property value or financial capacity. If the Enterprise cannot find acceptable solutions for these maturing credits, it may be faced with greater levels of REO.

The Enterprise is challenged with maximizing the value of its balance sheet. In 2009, it proposed to sell the majority of its low income housing tax credit portfolio. Treasury denied the proposal under the provisions of the Senior Preferred Stock Purchase Agreement, and FHFA subsequently advised the Enterprise that Treasury's decision precluded further consideration of its proposal to sell its low income housing tax credits.

Management and staffing are a concern. In 2009, the senior vice president of multifamily resigned from Fannie Mae. To date, the position has not been filled, although that function is effectively being handled by others. Given the emerging problems in multifamily, the Enterprise must ensure that a qualified successor is identified and key roles have adequate back-up personnel.

Counterparty Risk Management

Counterparty credit risk continued to increase throughout 2009 as the ailing economy affected many counterparties from both the single-family and multifamily business lines. These counterparties included mortgage originators, servicers, and insurers. The rise in unemployment and the continued decline in house prices are significant economic factors that left many homeowners unable to refinance their mortgages or make mortgages payments, and many rental property owners had to lower rents and raise concessions to counter the effects of rising vacancy rates. Consequently, capital dissipated in many financial institutions resulting in a high number of bank failures. Moreover, mortgage insurers are using extreme capital preservation tactics, and other counterparties filed for bankruptcy.

The Enterprise has not avoided the impact of stressed counterparties, but it has improved its identification of counterparty exposure and often took measures to protect that exposure. These measures include requiring counterparties to provide collateral against the exposed amount of risk, transferring some servicing portfolios to "high-touch" servicers, and controlling the exposure from funds left in accounts with collected mortgage payments. The Enterprise also increased its quality control review of mortgages resulting in increased repurchase requests. Repayment periods are lagging for many seller-servicers because of their own financial difficulties.

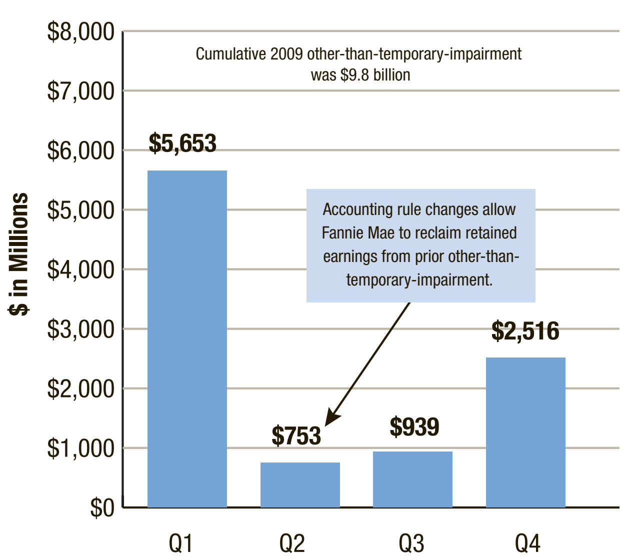
Mortgage insurers remain troubled and continue to face rating downgrades. These insurers use rescissions to help manage their losses, increasing financial pressure to seller-servicers, especially those already financially challenged. Stressed mortgage insurers and seller-servicers ultimately may negatively affect Fannie Mae.

Counterparty credit risk management carefully evaluates all bifurcation plans from insurers, and its objective when reviewing any bifurcation plan is to ensure that the old company is not left with an undue level of risk. Counterparty credit risk management also is in the process of updating its mortgage insurer eligibility guidelines and working with new entrants into this industry.

Private-Label MBS

Fannie Mae recorded credit losses in the form of other-than-temporary impairments during 2009

Figure 24 • Fannie Mae Quarterly Other-than-Temporary Impairment on Private-Label MBS ($ millions)



Source: Fannie Mae

on its $89.8 billion private-label MBS portfolio, including commercial MBS and mortgage revenue bonds. The $9.8 billion loss for 2009 includes the recapture of the loss through retained earnings as a result of a change in accounting standards. Despite significant price volatility during the year, improved liquidity during the fourth quarter of 2009 resulted in net mark-to-market gains on the private-label MBS of $1.5 billion and commercial MBS of $3.1 billion. (See Figure 24.)

At year-end 2009, Fannie Mae's $89.8 billion private-label MBS, commercial MBS, and mortgage revenue bond portfolios reflected deteriorating credit performance. Although almost all of these securities were rated triple-A at purchase, $42.2 billion were rated below investment grade at year-end 2009.

In 2007, FHFA limited a pilot program that allowed Fannie Mae to purchase private-label MBS rated below triple-A to $750 million rather than the $3 billion limit Fannie Mae initially requested. The limited portfolio experienced significant losses, so in 2009, Fannie Mae sold the entire private-label MBS subportfolio originally rated below triple-A at a significant loss.

The following practices mitigate FHFA's other-than-temporary impairment concerns:

- The capital market risk management private-label MBS group continued vigorous loss mitigation activities by aggressively pursuing loan put-backs based on fraud and misrepresentation.
- In December 2009, FHFA approved management's remediation plan relating to private-label MBS policy and loss mitigation. This plan includes escalation procedures, reporting improvements, and improved coordination and communication between capital markets risk management and capital markets traders on market conditions and identification of opportunities to sell private-label MBS.

Market Risk Management

Market risk is rated **critical concerns**. The rating is based on (1) a high level of duration, convexity, and volatility risk; (2) extreme volatility of market interest rates and the mortgage basis; (3) unprecedented model uncertainty arising from government housing programs decreasing the reliability of its interest rate risk estimates; (4) and several weaknesses in risk management practices.

Liquidity and Funding Risks

The risk associated with Fannie Mae's liquidity and debt funding activities has diminished but continues to be a significant concern. Fannie Mae continuously accessed short-term, long-term, and callable debt at favorable levels during 2009 but likely would not have had this funding access without government support. Agency debt purchases by the Federal Reserve significantly reduced debt spreads beginning in the first quarter of 2009. No formal government liquidity backstop now exists that would enable the company to convert its unencumbered collateral to cash.

Partial resolution of accounting and operational issues enabled the securitization of $95 billion of loans out of portfolio during 2009, which was significantly higher than 2008. As a result, Fannie Mae has sufficient liquidity plus unencumbered MBS collateral to cover its one-year debt rollover. Securitization of substantially all the remaining whole loan asset classes will improve overall liquidity.

Fannie Mae significantly reduced its ratio of short-term debt to total debt. Fannie Mae also maintained the FHFA-required minimum 21 calendar day positive net cash position. However, FHFA increased the minimum position to 30 calendar days in late 2009.

Fannie Mae's liquidity risk management practices have improved but continue to be a significant concern. Organizational changes and disagreements with FHFA on the size of the liquidity portfolio delayed management's development of an acceptable remediation plan. In December, FHFA accepted management's revised liquidity risk management remediation plan including recommendations from an outside consultant (a recognized liquidity risk expert) and expects full remediation by March 31, 2011.

The risk associated with Fannie Mae's liquidity and debt funding activities has diminished but continues to be a significant concern. Fannie Mae continuously accessed short-term, long-term, and callable debt at favorable levels during 2009 but likely would not have had this funding access without government support.

The following management actions mitigated FHFA's concerns and improved liquidity risk management:

- Management segregated and sold illiquid securities that did not qualify for liquidity risk management. During 2009, management reduced the relatively illiquid investment portfolio by about half.
- Management has begun purchasing Treasury Bills as part of the other investment portfolio and is taking other steps to improve liquidity and credit risk

in that portfolio to ensure it is sufficient to cover 30 calendar days of Fannie Mae's net cash needs, as required by FHFA.

Interest Rate Risk Management

Interest rate risk management remained a challenge in 2009 because of high volatility in rates and the mortgage basis, as well as continuing declines in home values. External conditions significantly impeded Fannie Mae's ability to accurately measure and manage interest rate risk exposures —uncertainty about borrower response to government housing and stimulus programs rendered model results less reliable and required more on-top adjustments by management.

Although several operating risk limits were breached during the year, the Enterprise operated well within Board-approved limits. Management did not remediate to FHFA's satisfaction findings from the 2008 *Report of Examination* about Board interest rate risk limits. In light of the absence of capital and earnings together with model uncertainty, FHFA continues to have critical concerns regarding the duration, convexity, and volatility limits and exposures.

FHFA is concerned about the following management weaknesses:

- Management needs to strengthen governance of the on-top adjustment process. For example, metrics given to the Board to show compliance with limits did not reflect management's on-top adjustments.
- The 2009 Board limits allow for a high degree of optionality risk. FHFA believes a tighter Board limit framework will guard against sudden, sizeable rebalancing needs to bring its risk positions back within operating limits in times of severe market stress.
- In light of the Enterprise's conservatorship status, management's range of operating limits for duration exposure should be in a significantly tighter range in 2010. In December 2009, the Enterprise exceeded operating limits for duration. A sudden rise in rates together with a significant mortgage basis widening and management's on-top adjustments to compensate for anticipated changes to the production prepayment model resulted in a breach of operating limits. In response, management sold a significant amount of MBS. Tighter operating limits and more frequent rebalancing to a neutral position reduce the need for such large-scale rebalancing efforts.

The following management practices mitigated FHFA's concerns about interest rate risk management:

- Enterprise risk management's oversight of market risk activities improved during 2009 as a result of more effective communication between the risk management and capital markets business units. The asset and liability committee provided an effective forum for discussing the relevance of recent market events, overseeing capital markets transactions, and asset and liability management.
- Fannie Mae constructively explored potential interest rate swap clearinghouses and has adopted an action plan to centrally clear and settle derivative interest rate swap contracts.

Retained Portfolio Management

During 2009, the Enterprise's retained portfolio decreased by $14.8 billion, ending the year with an unpaid principal balance of $772.5 billion. Liquidity of the retained portfolio improved because the agency MBS portfolio increased from 41 percent to 52 percent of the retained portfolio's composition, due primarily to the

Enterprise's securitization of almost $95 billion of single-family whole loans held in portfolio and a significant year-end mortgage roll position.

The whole loan portfolio is less liquid; at $281 billion, it represents about 36 percent of retained portfolio assets. Liquidity of the retained portfolio will likely worsen during 2010 as accounting changes allow the Enterprise to take advantage of substantial economic incentives to purchase mortgage loans that are 120-plus days delinquent out of MBS pools guaranteed by Fannie Mae.

The Enterprise continues to hold a significant amount of whole loans in the retained portfolio that cannot be securitized with the current operational infrastructure (including reverse mortgages, which have substantial liquidity, modeling, and reputational risks). Management postponed, or suspended, previous plans to securitize multifamily whole loans, reverse mortgages, interest-only mortgages and adjustable-rate mortgages.

Operational Risk Management

Operational risk management is rated **critical concerns**. The weak financial condition of the Enterprise and the poor credit market created a more complex and riskier operating environment. Significant organizational changes at senior levels, new industry initiatives, and the increase in delinquent loans and REO also created significant operational risk to the Enterprise.

This risk was exacerbated by the implementation of a new consolidation accounting standard, a $125 million initiative involving the creation of new accounting for 18 million loans in more than 140 various systems. In addition, the Enterprise played an enormous role in developing and implementing initiatives to mitigate loan losses, including the Administration's MHA program and the housing finance agency liquidity program. Rapid development cycles, coupled with the breadth and depth of these programs, further increased operational risks. Accumulation of several financial reporting errors during 2009 resulted in a material weakness in financial reporting disclosure controls and procedures.

Enterprise operations and technology experienced continuous organizational and executive leadership changes over the past two years, due in part to the tumultuous external environment and turnover in the chief executive and chief operating officer positions. Organizational changes included new executive positions: executive vice president of operations and technology, chief information officer, chief information security officer, chief audit executive, chief risk officer and lead executive for operational risk management. The Enterprise also encountered operational incidents and recognized a need to resolve system development life cycle deficiencies while concurrently pursuing strategies to enhance information technology and internal controls and reduce operating expenses.

Progress towards enhancing the control environment was limited, but management achieved several key milestones. Management successfully retired a major legacy system, met internal goals of outlining a reference model and strategic planning for a future information technology architecture design, and introduced a new Enterprise operations and technology governance framework. Management also successfully implemented the new consolidation accounting initiative, a significant accomplishment, although important work remains to be done in 2010.

The Enterprise remains in the early stages of implementing an operational risk oversight function. The Enterprise failed to develop and implement a robust operational risk oversight program within three years of the 2006 consent order and experienced three lead executive changes for the oversight function during the period. Executive management is sponsoring several initiatives to strengthen the environment, such as the process improvement initiative, future technology architecture, a loan quality improvement initiative and beginning risk control self-assessments, a major accomplishment if done correctly. These initiatives are in early stages. Management expects the operational risk oversight program to be fully implemented by the end of 2010.

Internal Controls

Internal controls are a significant concern. The combination of external and internal changes, numerous organizational changes, and the impact of the numerous initiatives on internal controls increased risks to internal controls in 2009.

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The need to develop and implement critical initiatives, such as the MHA program and consolidation accounting requirements, along with unprecedented default and foreclosure rates, added additional stress. These initiatives are being developed under aggressive schedules with fixed deadlines and require significant resources and complex technology solutions. For example, the consolidation accounting requirements employed 148 system/process implementations and 54 end-user computing system deployments. As administrator for the MHA program, Fannie Mae is responsible for developing the system for all mortgage loans in the program, a significant effort.

Limited progress towards enhancing internal controls was noted through the year, and the Enterprise remains highly dependent on manual and end-user computing controls. Several significant high-profile operational incidents, such as the miscalculation of weighted average maturity values in the disclosure files for August and inadvertent inclusion of loans with liquated balances for select single-family MBS pools, suggest internal controls may be overstressed.

Through the process improvement initiative, executive management identified 12 core business processes. For these processes, management intends to perform thorough business process mapping and assign ownership of each process to a specific executive. The intended outcomes are increased accountability, stronger internal controls, and enhanced efficiencies through process reengineering. The loan quality initiative is intended to improve loan quality data at origination. These various initiatives to enhance the internal control environment are commendable but still in early stages.

Information Technology

The information technology environment is a critical supervisory concern, due to the deficiencies in systems development life cycle, significant operational errors, continuing organizational changes, and risks associated with successfully implementing a number of high profile projects, such as MHA and consolidation accounting. The executive vice president of operations and technology manages these priorities while also attempting to enhance the technology and internal control environments, remediate critical matters requiring attention (MRAs), reduce operating expenses, and ensure business continuity.

Several significant high-profile operational incidents that occurred over the past few quarters illustrate the increased stress on information technology and internal weaknesses. Deficiencies associated with the systems development life cycle are cited as the root causes of these errors, and FHFA issued three MRAs to spur improvements and strengthen compliance.

Fannie Mae implemented a new system development life cycle process in January 2009 that incorporated industry best practices and standards. A root cause analysis highlighted a number of deficiencies where technology and the business units did not comply with the requirements. These deficiencies were further exacerbated by a lack of clear process ownership and accountability.

As an interim measure, the executive vice president of operations and technology and deputy chief financial officer now require executive review and sign-off for all key code changes, which has significantly reduced the number of new code requests. In addition, there were issues with reliability of loss mitigation data that caused problems in accounting.

As an added challenge, there have been continuous organizational and leadership changes in operations and technology. These changes were driven, in part, by rapid change in the structure, leadership, and direction of the company over the past two years. Several technology executives were hired within the last year. In addition, the Enterprise named a new vice president of technology infrastructure and operations, and the former senior vice president of technology infrastructure and operations transitioned to senior vice president of mortgage operations. The new executives are highly qualified, but continuous change in leadership has severely affected progress.

The Enterprise responded to MRAs issued in information security by hiring a chief information security officer. The Enterprise will need to continue to develop an Enterprise-wide information security framework aligned with industry standards, adequate staffing, governance, and reporting. The Enterprise is making plans to move in this direction for 2010.

To enhance the information technology environment, the executive vice president of operations and technology has outlined the future technology architecture. In the initial steps, all information technology proposals will be accepted or rejected based on whether or not the initiatives are consistent with the planned design. This concept is still in the early stages of development and will be a multiyear initiative to fully implement. FHFA expects more tangible plans and milestones for tracking progress in 2010.

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Data Management

Fannie Mae's data management program remains a significant supervisory concern, due to observed weaknesses in the areas of data architecture, data governance and data quality management. Fannie Mae responded to FHFA's concerns by developing an information management strategy document, providing data architecture planning documents, and establishing a new governance framework, but considerable remediation work remains.

Short-term risks have increased, because several members of the operations and technology executive team are new to Fannie Mae and several individuals with institutional knowledge are transitioning to other areas in the Enterprise. Documents provided by the new executive team are encouraging, but it will require time to develop and implement a comprehensive plan to remediate deficiencies. FHFA expects the Enterprise to resolve six MRAs in data management in 2010.

Operational Risk Management

The operational risk management program at Fannie Mae is a critical concern. Fannie Mae has yet to establish an effective operational risk oversight program that meets the expectations described in FHFA's September 2009 Enterprise Guidance on Operational Risk Management. Weaknesses continued in the overall effectiveness of governance and oversight, risk reporting, program design, and program implementation, as evidenced by significant, high-profile operational events during the year.

FHFA expects four operational risk management MRAs to be resolved in 2010. The new leadership has made progress in building a foundation. FHFA anticipates the new organizational structure to have significant impact on the Enterprise by the end of 2010.

Model Risk Management

Model risk, the risk that model output does not match actual performance, remains high. At the start of 2009 some of Fannie Mae's key credit models, such as its loan loss reserve and loss forecasting models, were outdated and performing poorly. Most credit models, such as automated underwriting and guarantee fee pricing applications, were current and performing well. Over the year management made substantial progress to update and improve models.

House price forecasting models remain a concern. The house price forecast process has at times produced flawed local market forecasts, and the forecast review process has not been sufficient to ensure these flawed forecasts were appropriately adjusted before being used in key applications.

Prepayment models posed significant risk during the year because of an unusually wide primary-secondary spread, house price volatility, the lack of credit availability, and uncertainty around the impact of MHA programs. Prepayment models have continued to predict faster than actual speeds across all major products during the year because the timing and magnitude of the effects of MHA programs are extremely difficult to predict.

Prepayment model uncertainty results in shorter than actual durations requiring on-top adjustments to key risk metrics. During the year, management was active in responding to the changing environment and deteriorating model performance; Fannie Mae updated key prepayment models several times to better model the effect of government programs and to better capture prepayment speeds in a credit-constrained and volatile house price environment.

The downturn in the housing market has spurred an effort to construct loss mitigation and property disposition models. Fannie Mae needs to maintain adequate staff to develop models that can assist in managing the dramatic increase in delinquencies and foreclosures seen in the current credit crisis.

Credit-related modeling issues and challenges include the following:

- Flawed local house price forecasts reduced the five-year credit loss forecast by $10 billion, about 10 percent of the estimate, and generated substantial instability in market risk metrics. Both issues initially required on-top adjustments and were later addressed by adding a dampening process to local forecasts.

- Despite the release of new models in the guarantee fee pricing application in August 2009, the application used to produce a fair value balance sheet continues to use much older versions of the models. The loss severity model consistently under-predicted actual loss severity by 28 percent to 30 percent over the past two years. Although the total difference in estimates between the new and old models was only 2 percent to 3 percent, these models (new and old) represent different views along risk dimensions and give conflicting signals. The problem arises from different technology architectures that require a model to be recoded for the financial reporting application. Fannie Mae plans to hire five additional model developers to address this issue, though resolution will take time.

- The new updated loss reserve model was used to generate the fourth quarter loss reserve. The model used for most of 2009 relied heavily on historical information at the expense of current information and did not include current delinquency status or current loan-to-value information.

- The new loss forecast model is a migration model and considers an extensive list of credit drivers, such as credit score, loan product, current loan-to-value, house price growth rate, age, and current delinquency status for estimating default. The Enterprise re-estimated delinquency, default, and prepayment models recently with updated data that includes the current housing crisis, which improved model performance.

- The business analysis and decisions unit devoted substantial resources from other important model tasks to develop the net present value model used in HAMP.

Market risk modeling challenges include the following:

- Modeling prepayments is difficult in a market where many borrowers are credit challenged and the impact of government and Enterprise loan modification programs is uncertain.

- Information technology infrastructure needs improvement so that model updates can be more timely and well-controlled.

- Modeling interest rates is difficult in a market dominated by government policy decisions affecting not only Treasury rates but also spreads on MBS.

Model Controls and Governance

Enterprise risk management's responsibility for model risk oversight is not sufficiently comprehensive, focusing too narrowly on independent model validation but not adequately covering other aspects of model risk management. Fannie Mae has made good progress on independent credit model performance tracking, but this process is not yet fully mature. Internal audit needs to expand its role in assessing model risk.

The model audit function within internal audit has not been adequately led or staffed, given the increase in model risk. Fannie Mae recently authorized a vice president of model audit position, along with several more junior positions that will nearly double total group resources. Once hiring is complete, staffing should be adequate.

Fannie Mae is in the process of addressing the weaknesses in model change management control and model governance identified in a recent FHFA targeted examination. The additional control being implemented and the expansion of the model governance role should help mitigate concerns in these areas. This important model control will not function optimally until it has been fully designed, implemented, and has matured—and that will take some time.

Model risk oversight needs to strengthen Enterprise-wide oversight of model performance tracking. In 2009, FHFA had concerns about monitoring and timely remediation of long-outstanding model validation issues.

Though progress continues, the business analysis and decisions unit has had the automated credit model performance tracking process under development for some time, and completion is not expected until the third quarter of 2010. Application level performance tracking is still under development. As a result, dissemination of information on the performance of critical credit models and applications has not been adequate.

Within Enterprise risk management, independent model validation is strong, but other dimensions of model risk oversight are still under development. An internal audit of the model risk oversight function revealed weaknesses and gaps in governance of the model life cycle process. Model risk oversight needs to strengthen Enterprise-wide oversight of model performance tracking. In 2009, FHFA had concerns about monitoring and timely remediation of long-outstanding model validation issues.

Enterprise risk management adopted a model change governance procedure on an interim basis during 2009. The expedited model adjustment procedure allowed a business unit, with concurrence from any part of Enterprise risk management, to approve a model change, even if model developers and model risk oversight did not agree. In such a case, escalation to Enterprise risk officer would be required. This procedure has recently been amended.

Model risk oversight plans to improve compliance with risk reporting requirements. Past presentations to the Board's risk policy and control committee did not include analyses of sensitivities of key risk and return metrics to changes in model assumptions, which the policy required.

Work remains to be done on the model inventory and compliance repository, including improving the quality of the data and building an automated interface to decrease the amount of manual interventions. Additional system functionality may need to be developed to support the expanded model risk oversight scope, including the continuous monitoring and assessment of models and application performance reviews.

Model risk oversight's ability to enforce implementation deadline dates and model version control remains a concern as competing priorities and technical and technology platform issues continue to hamper timely implementation of version upgrades across applications.

Model risk oversight and finance are strengthening and clarifying policy and procedural guidelines governing model on-top adjustments. To ensure uniformity of practice across the Enterprise, additional policy guidance may be needed on model usage when there are upcoming model updates with significant financial reporting impacts, but which are not expected to be implemented in time for the financial reporting cycle.

Report of the Annual Examination of Freddie Mac (Federal Home Loan Mortgage Corporation)

Examination Authority

This Report of Examination contains the results and conclusions of FHFA's 2009 annual examination of the Federal Home Loan Mortgage Corporation (called Freddie Mac, or the Enterprise) performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 as amended (12 USC § 4517(a)). FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to report examination results and conclusions to the Board of Directors and Congress is known as GSEER, which stands for Governance, Solvency, Earnings, and Enterprise Risk (Enterprise Risk comprises credit, market, and operational risk management).

2009 Examination Scope

In 2009, FHFA focused on monitoring rapidly changing market conditions and the economy, as well as the response by management and the Board to these changes and their effect on the Enterprise's risk profile and condition.

The remaining time was used in examination activities that assessed actions of the Board of Directors; quality of executive management; Enterprise-wide risk management and audit functions; accounting estimates and their effect on disclosures, earnings, and loss reserves; key model performance; loss mitigation activities and counterparty exposure; liquidity; interest rate risk profiles and risk management practices; the internal control environment; and risks in information technology, data quality, and business continuity.

Rating

Freddie Mac's composite rating is **critical concerns**. Enterprises with critical safety and soundness concerns exhibit severe financial, nonfinancial, operational or compliance weaknesses. Enterprises with this rating require more than normal supervision to ensure deficiencies are addressed. Definitions for all composite ratings can be found in FHFA's Supervision Handbook.

FHFA first assigned this rating at midyear 2008, which was a contributing factor to the appointment of FHFA as conservator. The appointment of FHFA as conservator, combined with Treasury financial support, Federal Reserve actions, and new management at the Enterprise have stabilized the Enterprise's condition. While the critical concerns rating at year-end 2009 reflects the fact that the Enterprise is not capable of currently operating without government assistance, FHFA also acknowledges the strides that the Board, management and staff of Freddie Mac have made under conservatorship to help stabilize the Enterprise and maintain its support of the secondary mortgage market.

Examination Conclusions

Freddie Mac's **critical concerns** rating arises mainly from continuing losses experienced throughout 2009, as well as forecasted losses yet to be realized. FHFA expects those losses to be the result of increasing delinquencies on mortgages owned or guaranteed by the Enterprise and worsening loss severities due to depressed housing prices nationwide, but particularly certain locales, such as California, Florida, Arizona, Nevada and Michigan. In addition, key counterparties have weakened, particularly mortgage insurers, and the demise of some counterparties has exposed problems in the management of counterparty risk.

These problems have been compounded by a high level of operational risk at Freddie Mac exacerbated by competing priorities related to completing critical finance and accounting projects, implementation of the Administration's MHA modification and refinance programs and other loss mitigation initiatives, and increasing volumes of real estate owned.

Significant challenges remain as the executive officers seek to strengthen upper and middle management, because the company is vulnerable to problems associated with losing people in important positions, which is known as "key person risk."

The Board of Directors and the chief executive officer achieved notable successes during the examination year in retaining senior executives, succession planning, and strengthening management. For the first time in several years, the Enterprise has incumbents in the positions of chief executive officer, chief operating officer, and chief financial officer. In addition, management successfully remediated several outstanding problems from previous examinations. Significant challenges remain as the executive officers seek to strengthen upper and middle management, because the company is vulnerable to problems associated with losing people in important positions, which is known as "key person risk."

Freddie Mac's financial flexibility remains limited without support from the U.S. Treasury. Financial results in 2009 improved substantially relative to the prior year, because of gains from interest rate derivatives, improvements in prices of MBS, and a change in accounting for security impairments. High provisions for credit losses to build loan loss reserves, impairments of private-label MBS, and charges to purchase delinquent loans out of trusts led to an increase of $10.7 billion in Freddie Mac's accumulated deficit (negative retained earnings) in 2009.

Freddie Mac must continue to provide adequate resources and executive support for accounting and financial reporting controls to ensure accurate accounting estimates, comply with financial reporting requirements and fulfill FHFA's information needs as conservator.

Market risk remains a critical concern, largely driven by historically high volatility of market interest rates and the mortgage basis, unprecedented prepayment model uncertainty, weaknesses in liquidity, and private-label MBS risk management.

Model risk is the risk that model output does not match actual performance, and at Freddie Mac, this risk remains high. House prices are uncertain as a result of unprecedented levels of REO and seriously delinquent properties and the unknown effects of government programs, such as MHA, federal income tax credits, and Federal Reserve MBS purchases. The output of important models, including default, severity, and prepayment models, are greatly affected by house price forecasts. As a result, the applications that use these to produce credit pricing, loss forecast, and various accounting estimates have become more uncertain since the mortgage market crisis began.

Governance

Governance is rated **significant concerns**. The governance-related issues the Board and management are working to resolve are complex and require heightened supervision to monitor and evaluate.

Board Supervision

In 2009, the Board of Directors and the chief executive officer achieved notable successes in retaining senior executives, succession planning, and strengthening management. For the first time in several years, the Enterprise has incumbents in the positions of chief executive officer, chief operating officer, and chief financial officer. Significant challenges remain as the executive officers seek to strengthen upper and middle management. As a consequence, the company is vulnerable to key person risk and to a lack of depth at the mid-management levels.

The corporate policy for reporting is sufficient to inform management of the Board's expectations regarding providing it information. The legal division appropriately executes its assigned responsibilities under the policy. Management is in the process of redesigning existing reporting practices and content to conform with corporate policy.

Management Supervision

Although improvements were made during the examination year, the Enterprise continues to face problems in allocating roles and responsibilities, authorities, and accountability. Management adopted written policies and procedures for this but has not completed the actual implementation of those policies and procedures.

Succession Planning/Human Capital Needs

Succession planning efforts are appropriate, and leadership talent reviews are consistent with professional practice. Executive and senior managers are responsible for addressing the human capital needs of their respective divisions. Throughout the examination period, the Enterprise faced significant people risk in several divisions. Although management has undertaken steps to address risks associated with losing people serving in important positions, known as "key person risk," the Enterprise remains vulnerable to the loss of employees partly because of uncertainties over compensation-related matters and the future status of the Enterprises.

Reporting Practices

Executive and senior management responsible for designing and producing reports continue to produce dense, highly detailed reports that may not facilitate efficient decision-making. This practice is pervasive among the business divisions examined, and exists at the executive management level, as well as the Board and Board committee levels.

FHFA instructed Enterprise management to evaluate and improve existing reporting practices. Notable improvements have been made to several Board and management reports, including risk reports, and some corporate credit reports. Improvements to management reports enhanced decision-making because they focused the reader's attention on high priority risks and led to timely, informed judgments. In contrast, dense, highly detailed reports do not facilitate efficient decision-making. Without cogent analysis and recommendations, the details may not serve the needs of directors and senior officers.

Internal Audit

Internal audit significantly expanded the scope of its activities in 2009, an achievement made possible by successfully increasing its staff by 59 percent and effectively managing resources. Expansion was necessary to achieve an increased number of audit objectives, including implementing an augmented model risk audit program, MHA-related work, internal investigations, validating remediations of material weaknesses and significant deficiencies, and closing matters requiring attention. In addition, internal audit tested nearly 40 percent of the required Sarbanes-Oxley Section 404 key controls in 2009, and the independent auditor was able to rely on a substantial amount of this work.

Organizational expansion on this scale poses risks, and must be well managed to avoid disruptions in the timely delivery of quality audit services. FHFA has not detected clear evidence of disruption, but internal audit finished about half of its follow-up reports assessing management's corrective actions of major and critical audit findings late.

Enterprise-wide Risk Management

Enterprise management continues to struggle with assigning accountability and developing an organizational structure that facilitates the effective execution of defined roles and responsibilities of the chief enterprise risk officer. During 2009, the Board acted on an FHFA recommendation and authorized the creation of a new chief credit officer position. Although FHFA instructed that the chief credit officer position not displace or otherwise substitute for the existing credit risk oversight function, the practical impact of the new unit left a gap in the credit risk oversight function within the Enterprise Risk Management division. Subsequently, Enterprise management has struggled to clarify the roles, functions, and authorities between the chief credit officer and the credit, market, and model risk oversight functions in enterprise risk oversight.

Management currently is implementing a series of enhancements to Freddie Mac's Enterprise risk management framework and practices based on an evaluation by an independent consultant. The chief credit officer and chief enterprise risk officer must function collaboratively to present the Board of Directors with a comprehensive assessment of the risks to the Enterprise and identify strategies to address those risks. It is essential for the chief enterprise risk officer function to provide an opinion on the overall risk to the Enterprise that is independent of the business divisions.

Counterparty Risk Management—Taylor, Bean & Whitaker

In November, Freddie Mac filed a Form 8-K disclosing the Enterprise's initial estimates of potential exposure to the seller/servicer Taylor, Bean & Whitaker Mortgage Corporation, which had filed for bankruptcy on August 4, 2009. In December 2009, FHFA initiated a special examination to look into the circumstances that led to Freddie Mac's termination of Taylor, Bean as an eligible seller-servicer and resulted in substantial financial exposures to Taylor, Bean, its affiliates, and related entities. Management currently estimates a potential exposure to Taylor, Bean, its affiliates, and related entities of approximately $1.3 billion. Yet, managers noted in the company's most recent Form 10-K that they are unable to estimate the total exposure related to Taylor, Bean's bankruptcy. The amount of related additional losses could be significant.

Accounting and Disclosure

The Enterprise must continue to provide adequate resources and executive support for accounting and financial reporting controls to ensure accurate accounting estimates, comply with financial reporting requirements, and fulfill the information needs of the conservator. In 2009, the Enterprise had to deal with a combination of challenging market forces, major changes to generally accepted accounting principles, and new government programs with unknown financial impacts. Absence of permanent leadership made overcoming these challenges more difficult in the accounting and finance area at Freddie Mac, but it has since been resolved.

Accounting policy and financial reporting issues of 2009 were as follows:

Policy coordination and disclosure. As a result of the conservatorship, FHFA initiated a collaborative process designed to address areas where new accounting policies should be coordinated and made consistent between Fannie Mae and

Freddie Mac. FHFA expects that the level of increased coordination will continue. Coordination proceeded more smoothly, most noted in the various issues that arose in connection with consolidation accounting.

Fannie Mae and Freddie Mac provided letters to the SEC and Financial Accounting Standards Board after getting FHFA input in the context of the conservatorship. These coordinated efforts were necessary to ensure consistent application of accounting policies at both Enterprises. Given the challenges facing the Enterprise and the conservatorship, disclosure risk has increased. Prior to releasing its quarterly and annual filings, Freddie Mac addressed FHFA's comments on its disclosures.

External audit. FHFA meets regularly with independent audit firm PricewaterhouseCoopers LLC (PwC) to address control weaknesses and other significant accounting and auditing issues and to discuss FHFA's risk-focused review of selected PwC audit documents. Management identified a material weakness in disclosure controls and procedures that was confirmed by PwC. As explained in the Form 10-K, through performance of various auditing procedures and activities, including meetings with FHFA, PwC was able to complete its audit and issue an unqualified opinion on the 2009 financial statements, although the material weakness made necessary an adverse opinion on Freddie Mac's internal controls over financial reporting.

Consolidation project. In 2009, the Enterprise made significant progress in adopting the new consolidation accounting standard issued by FASB. But due to the project's size, time line, and complexity, some risk remained at year end in connection with timely and controlled implementation of the project.

The new accounting standard requires the consolidation of a majority of loans held in Enterprise-guaranteed MBS trusts, which until January 1, 2010, were accounted for on an off-balance sheet basis. It also eliminates the need for recognizing an adjustment to fair value when delinquent loans are removed from a trust. Enterprise management worked effectively with FHFA and Fannie Mae to identify and address significant policy application differences. This included drafting several letters and preparing presentations for SEC and FASB staff, which simplified the implementation and reduced the risk to the tight implementation time line. FHFA continued to monitor this project to its conclusion with the issuance of financial statements at the end of the first quarter of 2010.

Credit loss reserves. Safety and soundness require a high degree of transparency to ensure that drivers of credit losses have been appropriately factored into reserve computations. Although the current volatile credit environment makes accurate accounting estimates difficult, the Enterprise has made progress towards that goal. In this connection, the Enterprise implemented a new credit loss reserve model that improves transparency of the major credit loss drivers and assumptions. During the year certain methodology, data quality, and computational issues arose, including length of the loan impairment window, the accuracy of the methodology used to determine loss severity for loans in certain structured transactions (called T-deals, structures in which Freddie Mac guarantees private-label MBS), and the quality of delinquency data related to loans serviced by some counterparties. These issues were resolved quickly. FHFA expects continued refinement of this process.

Low-income housing tax credits and deferred tax assets. At year-end 2009, there was uncertainty surrounding the fair value of Freddie Mac's investments in low-income housing tax credit entities. Fair value of these investments rested on the value of the tax credits to the Enterprise, either on its own tax return or through sale to a potential buyer. Freddie Mac is not expected to have any taxable income in the foreseeable future, so on February 18, 2010, FHFA, after extensive discussions with the Treasury Department, informed Freddie Mac that it may not sell or transfer the investments. The Enterprise has since written off the value of the investments. The Enterprise also had a significant deferred tax asset on its balance sheet at year end related to unrealized losses recorded for certain available-for-sale securities. FHFA's review of the process for accounting for the deferred tax asset indicated the carrying amount was appropriate based on management's assertions.

Solvency

FHFA previously determined that capital classifications would be suspended during conservatorship. Consequently, throughout 2009, FHFA did not issue a capital classification of Freddie Mac.

During conservatorship, Freddie Mac's positive GAAP net worth capital position has been supported by the United States Treasury under the Senior Preferred Stock Purchase Agreement.

The preferred stock agreement was amended twice during 2009. In May, the first amendment increased the cap on the Treasury draws from $100 billion to $200 billion, increased the mortgage asset limit by $50 billion to $900 billion, increased the maximum indebtedness from 110 percent of indebtedness at June 30, 2008, to 120 percent of the prior year's mortgage asset limit, and included other technical changes.

In December 2009, the second amendment allowed the cap to increase to cover the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010, 2011, and 2012, less any net worth surplus remaining as of December 31, 2012. The amendment also required the annual 10 percent reductions in the mortgage asset limit be calculated based on the mortgage asset limit rather than the actual mortgage asset balance on December 31 of the preceding year (resulting in a portfolio limit of $810 billion at December 31, 2010), postponed until 2011 the implementation of a quarterly commitment fee to be paid by Freddie Mac to Treasury, and included other technical changes.

During 2009, FHFA worked with Freddie Mac's capital team to reestablish the practice of completing quarterly capital plans, a practice that had been suspended for the first two quarters under conservatorship. Freddie Mac has submitted quarterly capital plans since the second quarter of 2009. The plans have included Freddie Mac's discussions of its continuing development of an economic capital model and issues relating to the process of emerging from conservatorship. FHFA has noted improvement in the plans each quarter and has requested that management continue to incorporate enhancements and improvements to the capital plan.

FHFA staff met several times with Freddie Mac's staff during 2009 to discuss and review modeling methodologies under consideration. These regular meetings will continue in 2010 as FHFA develops a new stress test model and incorporates lessons learned from all parties in the development process.

Under the terms of the Treasury agreement, total draws through December 31, 2009, on the Treasury's Senior Preferred commitment were $50.7 billion. Freddie Mac did not request a draw for the periods ending June 30, September 30, and December 31, 2009.

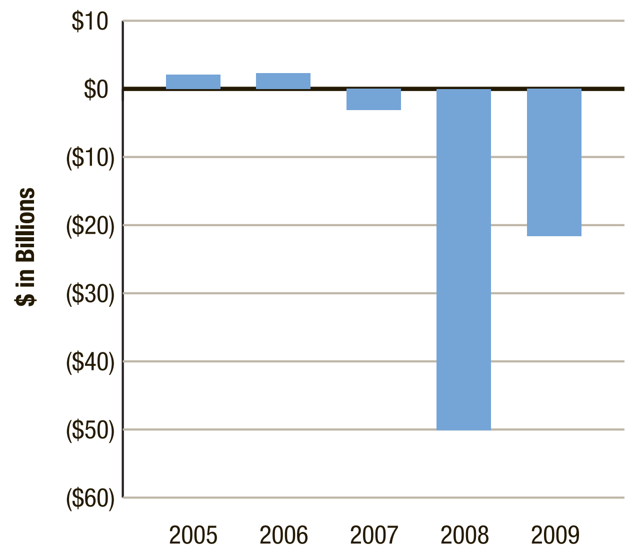
Freddie Mac maintained positive GAAP net worth after the $6.1 billion capital injection from Treasury to eliminate its net worth deficit at March 31, 2009. The positive GAAP net worth resulted from mark-to-market gains in available-for-sale securities and the one-time effect of adopting new accounting guidance related to other-than-temporary impairment that offset the negative effects of high credit expenses and senior preferred dividends. GAAP net worth for 2009 was reduced when Freddie Mac wrote off the remaining value of its low income housing tax credit investments. Draws in 2010 will be increased by the initial transition adjustment from adopting the new consolidation accounting standard on January 1, 2010.

Earnings

Freddie Mac's financial performance, absent financial support from the US Treasury, is rated **critical concerns.** Net losses decreased substantially in 2009 to $21.6 billion from $50.1 billion in 2008. Freddie Mac's accumulated deficit (negative retained earnings) increased to $33.9 billion at year-end 2009. (See Figure 25.)

Continued widespread economic difficulties contributed to significant increases in mortgage delinquencies. Increasing delinquency rates for prime and nonprime borrowers contributed to increases in provisions for credit losses to build loan loss reserves in advance of expected charge-offs associated with the growing volume of delinquent loans. Freddie Mac's loan loss reserve increased by $18.3 billion during the year to $33.9 billion at the end of 2009. (See Figure 26.)

Figure 25 • Freddie Mac Annual Net Income

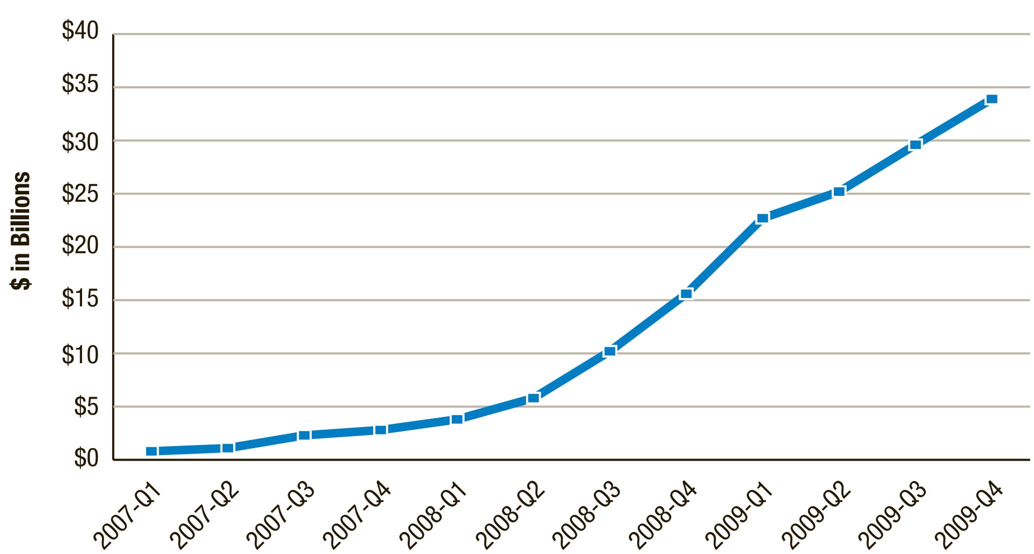


Source: Freddie Mac Form 10-K

Credit-Related Expenses and Losses

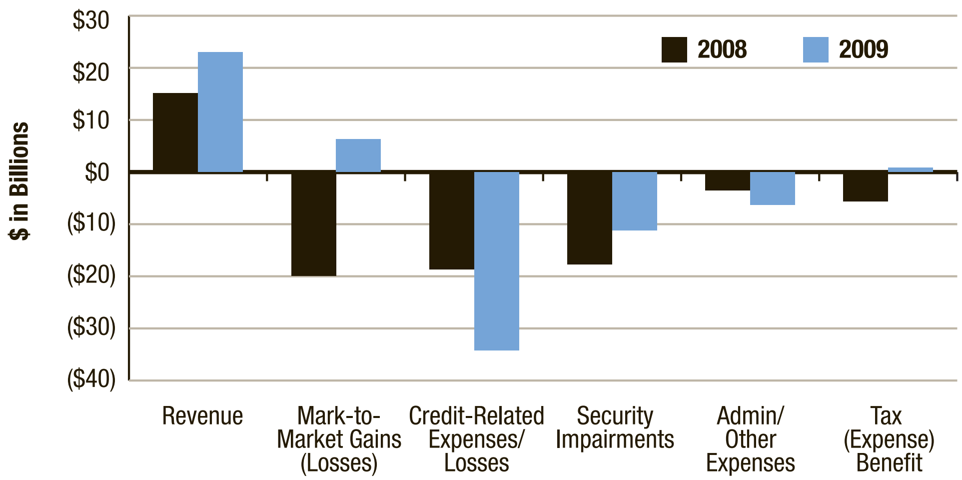
Freddie Mac's credit-related expenses and losses increased in 2009, primarily because of the provision for credit losses, which grew by $13.1 billion to $29.5 billion. (See Figure 28.) Higher credit-related expenses and losses eclipsed positive changes in all other major components of earn-

Figure 26 • Freddie Mac Credit Loss Reserve



Source: Freddie Mac Form 10-K

Figure 27 • Freddie Mac Earnings Detail



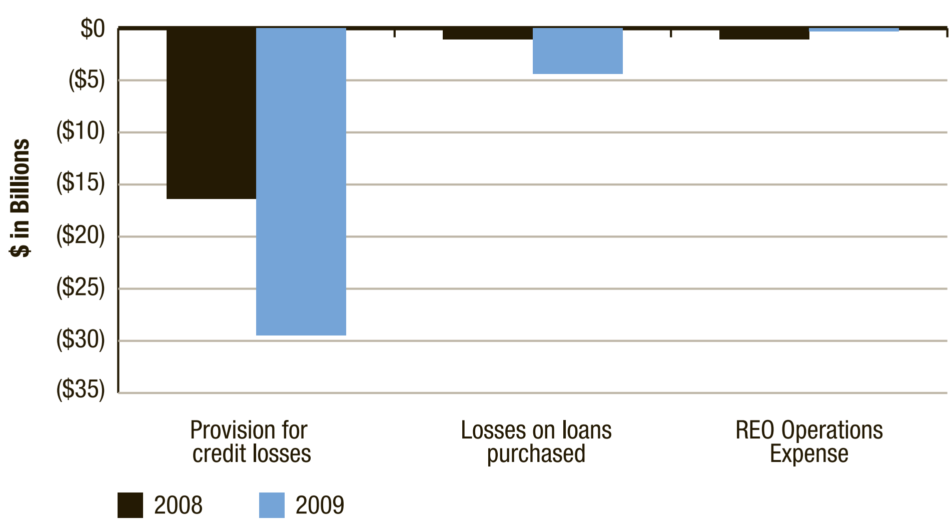
Sources: Federal Housing Finance Agency and Freddie Mac Form 10-K

ings. Relative to last year, earnings benefited from strong revenue growth, a shift to mark-to-market gains from mark-to-market losses, lower security impairments, lower administrative expenses and a tax benefit.

Accounting losses resulting from Freddie Mac's purchases of delinquent loans from participation certificate pools increased by $3.2 billion to $4.4 billion, driven by higher volumes of purchased delinquent loans, which contributed to the increase in credit-related expenses/losses. Changes to consolidation accounting policies in 2010 will significantly reduce this item going forward.

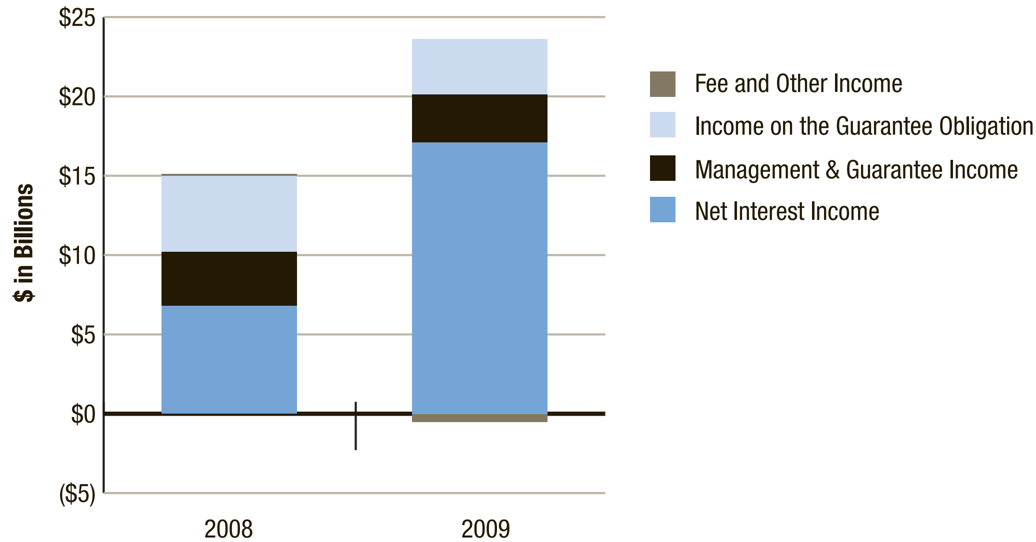
REO operations expense declined during the year to about $300 million from $1.1 billion in 2008, in spite of higher acquisition volumes of foreclosed properties in 2009. Stabilizing fair values of REO properties in the second half of the year reduced disposition losses and holding period write-down adjustments, and mitigated property

Figure 28 • Freddie Mac Credit-Related Expenses and Losses



Source: Freddie Mac Form 10-K

Figure 29 • Freddie Mac Revenue



Source: Freddie Mac Form 10-K

maintenance expense, resulting in lower overall REO operations expense for 2009.

Revenue

Revenue was positively influenced by strong expansion in net interest yield, which doubled during the year driven by lower funding costs. (See Figure 29.) Net interest income increased by $10.3 billion, or 151 percent, over the prior year, offsetting decreases in management and guarantee income and income on the guarantee obligation. (See Figure 30.)

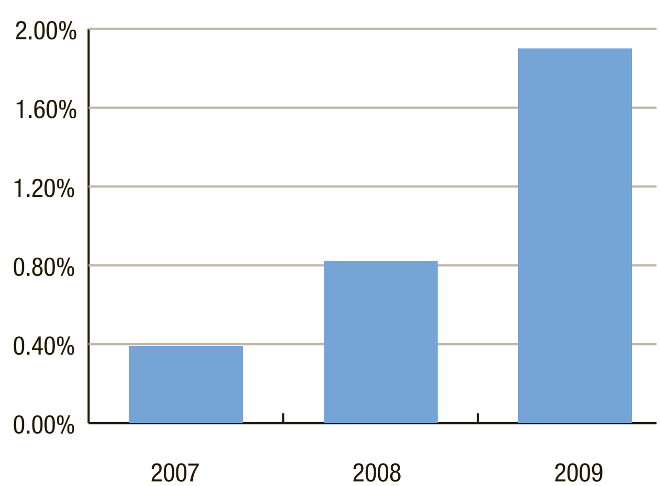
Lower benchmark Treasury rates and lower debt spreads to Treasuries, attributed to the Federal Reserve's purchases of Enterprise debt, led to a decrease in the cost of debt funding.

Freddie Mac's efforts to tighten credit quality shifted the mix of new business in 2009 to relatively higher quality loans with lower guarantee fees, which reduced the risk of that vintage but lessened income from the credit guarantee business.

Income from the amortization of the guarantee obligation was lower in 2009 compared to 2008, a year when rapid declines in house prices and prepayments accelerated income recognition.

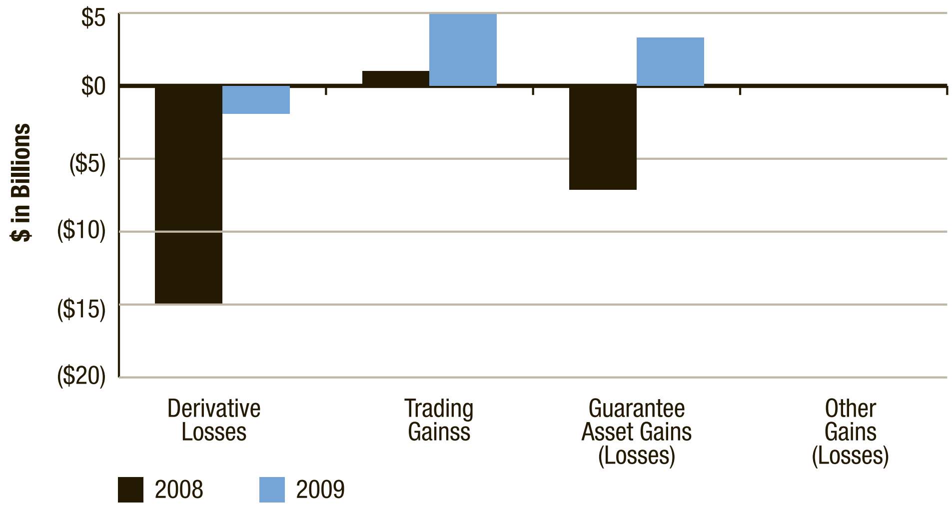
Trust management expenses associated with shortfalls in interest payments on participation certificates, resulting from higher volumes of loan refinancing, exceeded trust management income during 2009. Trust management income was negatively affected in 2009 by lower returns caused by low short-term interest rates.

Figure 30 • Freddie Mac Net Interest Yield



Source: Freddie Mac Form 10-K

Figure 31 • Freddie Mac Mark-to-Market Value Gains (Losses)



Source: Freddie Mac Form 10-K

Mark-to-Market Gains/Losses

Mark-to-market gains of $6.3 billion during 2009 primarily related to derivatives, trading securities, and the guarantee asset boosted financial results. (See Figure 31.) Derivative losses were $13.1 billion lower in 2009 at $1.9 billion. In contrast to the substantial declines in interest rates during the latter half of 2008, rates remained relatively stable in 2009.

A more stable interest rate environment and tighter credit spreads on participation certificates also contributed to gains of $3.3 billion on the guarantee asset in 2009, improving earnings by $10.4 billion relative to last year. Gains on trading securities increased by $3.9 billion as prices of agency participation certificates benefited from the Federal Reserve's purchases. Together these three items improved pretax earnings by $27.4 billion.

Security Impairments

Compared to 2008, security impairments declined by $6.5 billion to $11.2 billion in 2009, though performance of collateral underlying private-label securities worsened during 2009. Security impairments benefited from a change in accounting policy effective April 1, 2009. Starting with the second quarter of 2009, only the credit portion of other-than-temporary impairments was recognized in earnings.

Other Expenses

In the fourth quarter of 2009, Freddie Mac wrote down the carrying value of low income housing tax credit partnership investments to zero, recording an impairment charge of $3.4 billion due to the inability to sell or transfer these investments.

Provision for Federal Income Taxes

Financial results in 2009 were aided by a tax benefit of $800 million, stemming from the Enterprise's ability to carry back 2009 net operating losses to prior years. In contrast, in 2008, Freddie Mac reported a provision for federal income taxes of $5.6 billion after establishing a partial valuation allowance against deferred tax assets in the third quarter of 2008.

Summary

Freddie Mac's financial flexibility remains limited without support from the Treasury department. Financial results in 2009 improved substantially relative to the prior year, driven by a more stable interest rate environment, improvements in prices of agency MBS and certain categories of private-label MBS, and a change in accounting for security impairments. In spite of these changes, high provisions for credit losses to build loan loss reserves, impairments of private-label MBS and charges to purchase delinquent loans out of trusts led to an increase in Freddie Mac's accumulated deficit (negative retained earnings) of $10.7 billion in 2009.

Outlook

2010 is likely to be another difficult year for financial results. In the short-term, earnings are likely to be influenced by a modest decline in revenue and significant uncertainty about credit-related expenses.

The amendments to the accounting standards for transfers of financial assets and consolidation of variable interest entities are expected to reduce net interest income modestly in 2010 as Freddie Mac stops accruing interest income on loans that are 90-plus days delinquent. In theory, the accounting change should not impact the economics of the transaction over the life of a loan because lower revenue from stopped interest on delinquent loans should be offset by lower charge-offs at foreclosure or higher revenue if the loan reperforms. There is a timing difference for reporting earnings between the reduction in revenue at 90 days delinquent and the charge-off, which occurs, on average, a year later. Credit losses are likely to remain substantial as delinquent loans transition to some form of resolution, in some instances triggering charge-offs. Consequently, financial results will be significantly influenced by the success or failure of loss mitigation initiatives.

Credit Risk Management

Credit risk remains rated **critical concerns** as economic conditions continue to stress credit performance in the single-family and multifamily business units and the number of troubled, weakened, and failed counterparties grows. The effectiveness of credit and counterparty risk management remains problematic in several areas.

Credit losses are likely to remain substantial as delinquent loans transition to some form of resolution, in some instances triggering charge-offs. Consequently, financial results will be significantly influenced by the success or failure of loss mitigation initiatives.

Levels of seriously delinquent single-family mortgages, REO properties, and credit losses rapidly increased during 2009 as a result of historic house price declines and rising unemployment. Weakened multifamily market fundamentals, including rising vacancy rates and increased concessions, are pressuring property owners' net operating income and ultimate ability to service existing debt. Reduced multifamily property values, reflected in rising capitalization rates, have made refinancing more difficult. Both the single- and multifamily business units have substantially increased levels of loan loss reserves because of expectations of future credit losses.

In 2008 the Enterprise established an independent credit function with approval authority led by a chief credit officer. In March 2009, it formally established the corporate credit risk committee, along with subcommittees for single-family credit, multifamily credit, house price appreciation, loan loss reserve and loss forecast, nonagency credit, counterparty ratings and policy. The corporate credit risk committee and its subcommittees worked in 2009 to develop standard credit management reporting packages.

The establishment of a governance process for credit risk management is positive. It will take time to assess the overall quality of the credit organization—the actions of senior management and the efficacy of its organizational structure, reporting lines, delegations of authority, and management reporting will have to be observed.

The Enterprise is focused on minimizing credit losses. Single family has supported MHA and other administration programs, including the housing finance agency initiative, and additional resources have been dedicated to the default asset management function. Further, several initiatives have been launched around loss mitigation, including modifications, foreclosure alternatives, and asset disposition. Multifamily is proactively monitoring at-risk loans that mature over the next eight quarters but may face difficulty refinancing.

Certain functions including the multifamily asset management function must be strengthened to manage the increasing level of problem assets. The Enterprise needs to make improvements to its overall counterparty credit risk management function to ensure early identification of troubled counterparties and articulation of robust action plans.

Single-Family Loans

The seriously delinquent rate of single-family loans increased from 1.83 percent to 3.98 percent from year-end 2008 to year-end 2009, an increase of 118 percent. Certain segments of the book are driving the increase, including Alt-A, initial interest, loans made in 2006 and 2007, and loans from California, Florida, Nevada, Arizona, and Michigan. The current economic environment is also pressuring performance of more traditional mortgages, including loans with lower combined original loan-to-value ratios, higher credit scores, fixed-rate amortization and more seasoned loans that were expected to have a lower propensity for default.

Single-family credit losses increased 109 percent from $3.8 billion at year-end 2008 to $7.9 billion at year-end 2009. Credit losses in California, Nevada, Arizona, and Florida accounted for 63 percent of credit losses in the fourth quarter of 2009.

REO inventory increased from 29,233 properties at year-end 2008 to 44,745 properties at year-end 2009, a 53 percent increase. This increase in REO is substantially less than the 104 percent increase from 2007 to 2008. The slowed acceleration in REO inventory growth is a result of HAMP efforts to give homeowners who have the ability and willingness to remain in their homes the opportunity to modify their mortgages, as well as lengthening foreclosure timelines in many jurisdictions and constraints on the capacity of some servicers to complete foreclosures.

The single-family loan loss reserve has increased steadily since the second quarter of 2008, from $5.8 billion to $33 billion in the fourth quarter of 2009. A newly developed loan loss reserve model has been used since the second quarter of 2009 to establish quarterly loan loss provisions and has minimized the use of on-top model adjustments. Management worked during 2009 to address MRAs related to the 2008 loan loss reserve targeted examination. A recent failure of the severity calculation relating to T-deals was identified by management during the fourth quarter. Remediation action was quickly initiated and in process at year-end 2009.

Actions to improve the credit performance of new purchases, which became effective in the second half of 2008 and early 2009, have had a positive effect. In addition, the single-family business unit developed a multiyear strategic plan focused on enhancing data validation capabilities to strengthen loan quality at delivery.

The Enterprise has undertaken significant efforts to minimize credit losses and support MHA and other administration programs. In 2009, the Enterprise devoted a significant amount number of resources to HAMP in support of servicer execution and as compliance agent for Treasury.

The reorganization of the default asset management department in April 2009 improved Freddie Mac's ability to manage its defaulted portfolio by hiring more managers, team leads, and group leads to provide more oversight and guidance to servicers and vendors. As of year-end 2009, default asset management had a staff of 322 full-time equivalents, complimented by a strategy that leverages outsourced resources as needed.

The default fulfillment operations group was initially set up to help realize HAMP documentation requirements, but the company ultimately expanded it to include traditional modification programs. Default asset management employed a group of vendors to address servicer weaknesses and gaps stemming from extraordinary work-out volumes and unique HAMP program specifications, including documentation requirements and borrower qualification functions. The group of vendors addresses servicer needs including training, door-knocking campaigns to improve borrower contact, receiving in-bound borrower calls, and initiating out-bound borrower calls. These activities are resulting in improved statistics.

The number of loans with actions taken has increased from 16,990 in January 2009 to 34,873 as of December 2009 and the ratio of workouts to REO at year-end improved to 51 percent from 37.5 percent in July 2009. Recognizing the vulnerability associated with reliance on a single vendor, the REO unit within default asset management contracted with a second vendor to manage REO properties. Management also established the default asset management operating committee to ensure that appropriate Freddie Mac resources are identified and applied to default asset management and loss mitigation activities and strategies.

To reduce defaults in the single-family book of business, the Enterprise has introduced a number of pilots and initiatives including loss avoidance solutions, loss prevention, loss mitigation, and loss recovery solutions.

To reduce defaults in the single-family book of business, the Enterprise has introduced a number of pilots and initiatives including loss avoidance solutions, loss prevention, loss mitigation, and loss recovery solutions. The initiatives include refinancing high-risk loans, contracting with strategic vendors to manage the aged modification pipeline, facilitating short sale approvals, REO rental programs, and developing pilot programs to test servicing transfer feasibility.

Multifamily

Credit risk in the multifamily business unit continues to rise as market fundamentals weaken. Vacancy rates are near 8 percent and are mainly attributable to historic levels of unemployment. Property owners lowered rents by as much as 2 percent to 3 percent to maintain occupancy levels, but this has a negative effect on net operating income and the ability for property owners to service existing debt. In addition, concessions rose to almost 8 percent of market rents. Capitalization rates are increasing and above 7 percent by year-end 2009, resulting in lower property values that make it difficult for owners to sell or refinance, affecting multifamily production volume.

To assess the Enterprise's ability to manage the increasing level of problem assets, FHFA conducted a targeted examination of the asset management function. The examination found the function must be strengthened, although FHFA recognizes that the multifamily business unit has begun to address some of the issues identified. Specifically, the examination noted concerns with risk rating systems, policies and procedures, and staffing levels.

The rise in watch list assets and REO inventories is expected to continue in 2010. Credit losses increased in 2009 and may continue increasing, which has necessitated additional provisions to the allowance for loan losses. The Enterprise increased its loan loss reserve for multifamily credit to $830 million at year-end 2009 from $277 million at year-end 2008 to cover these expected increases. For 2009, actual credit losses were $41 million.

Freddie Mac is monitoring at-risk loans that mature in the next eight quarters. These loans are rescored for debt service coverage and loan-to-value based on forecasted capitalization rates and note rates at maturity to assess future refinance ability. These high-risk maturing loans are assigned to asset resolution for management.

The Enterprise is challenged with maximizing the value of its balance sheet. In 2009, multifamily began an initiative to sell its low income housing tax credits. Freddie Mac could not use the credits because it does not have taxable income to offset them. In November 2009, pursuant to Treasury's refusal to consent to Freddie Mac's low income housing tax credit portfolio disposition, FHFA advised the Enterprise that Treasury's decision precluded further consideration of its proposal to sell its low income housing tax credits. Subsequently, on February18, 2010, FHFA informed Freddie Mac that it may not sell or transfer its low income housing tax credit investments. As a result, the Enterprise has written off the value of these investments.

Counterparty Risk Management

Counterparty credit risk continued to increase throughout 2009 as the ailing economy affected many counterparties including mortgage originators, servicers, and insurers. The rise in unemployment and the continued adverse trends in house price depreciation are significant economic factors that left many homeowners unable to refinance their mortgages or continue to make contractual mortgage payments. Consequently, capital dissipated in many financial institutions resulting in record bank failures. Moreover, with regard to other mortgage market participants, mortgage insurers are using aggressive capital preservation tactics, and other counterparties filed for bankruptcy.

To assess the Enterprise's ability to manage the increasing level of problem assets, FHFA conducted a targeted examination of the asset management function…Specifically, the examination noted concerns with risk rating systems, policies and procedures, and staffing levels.

The Enterprise has not avoided the impact of stressed counterparties. During the summer of

2009, Taylor, Bean, & Whitaker, formerly a top 10 seller-servicer declared bankruptcy, and its subsidiary bank, Platinum Bank, closed. Colonial Bank, a warehouse lender and custodian for Taylor, Bean, also closed.

Freddie Mac has faced several counterparty problems in recent years. The Enterprise is attempting to identify and manage counterparty problems early on. For example, exposure to one large seller/servicer has been a concern, but Freddie Mac reached an agreement on outstanding selling representation and warrant exposure. The Enterprise is improving in its identification of troubled counterparties but needs to ensure that robust and measurable action plans are in place to address problems.

The organizational structure of counterparty credit risk must be strengthened, and the newly hired vice president of counterparty credit risk management is currently working on doing this. FHFA urges senior management and Board to support the needed changes to the organizational structure. Among the changes planned are strengthening of the various credit committee structures, assessing the skill levels of the credit analysts, and the realignment of personnel. Credit analyses warrant strengthening to include benchmarking to industry standards.

The management of counterparty risk has never been more critical or challenging than in recent years. FHFA urges the Board to continue to provide counterparty credit risk management with the resources it needs to effectively identify and control counterparty exposure.

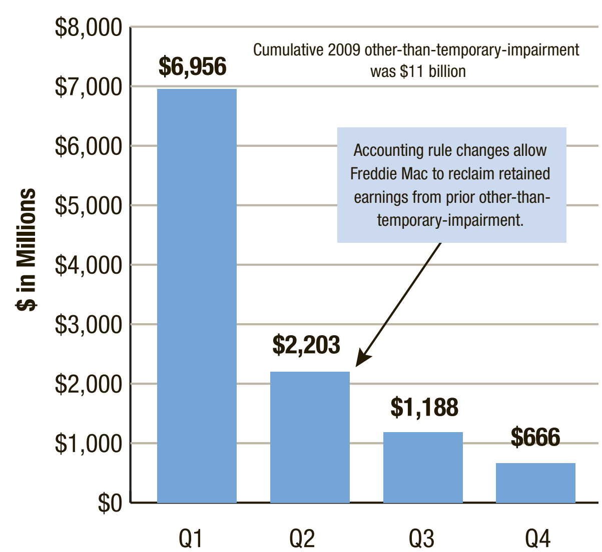
Mortgage insurers remain troubled and continue to face rating downgrades. These insurers use rescissions to help manage their losses, increasing financial pressure to seller-servicers, especially those already financially challenged. Stressed mortgage insurers and seller-servicers ultimately may negatively affect Freddie Mac.

To respond, mortgage insurers are focusing on business preservation. Tightening their credit standards has neither helped the housing recovery nor supported new home purchases, although it preserves capital. Many insurers successfully pressed state regulators and legislators to relax capital limitations allowing them to continue to write new business. Freddie Mac diligently evaluates new proposals by mortgage insurers.

Private-Label MBS

Freddie Mac recorded credit losses in the form of other-than-temporary impairments during 2009 on its $175.6 billion private-label MBS portfolio. (See Figure 32.) The $11 billion loss for 2009 includes the effect of favorable changes to impairment accounting rules during the first quarter of 2009. Despite significant price volatility during the year, improved liquidity during the fourth quarter of 2009 resulted in net mark-to-market gains on commercial MBS of $6.3 billion. Net mark-to-market losses on residential private-label MBS were $546 million.

Figure 32 • Freddie Mac Quarterly Other-than-Temporary Impairment on Private-Label MBS ($ Millions)



Source: Freddie Mac

At year-end 2009, Freddie Mac's $175.6 billion private-label MBS and commercial MBS portfolios reflected deteriorating credit performance. Although substantially all of these securities were rated triple-A at purchase, $84.2 billion were rated below investment grade at year-end 2009. Management did not purchase private-label MBS or commercial MBS during 2009.

The following management practices represent weaknesses:

- Policies for private-label MBS and commercial MBS lack meaningful and enforceable limits and oversight roles and responsibilities for the chief credit officer. Management expects to have approved policies in place by the end of the first quarter of 2010 that include authority for the chief credit officer to force securities sales and limit purchases based on prepurchase analysis.
- Absence of an effective private-label MBS policy impedes loss mitigation efforts because management is not required by policy to focus resources or produce loss mitigation results.

The following management actions mitigated FHFA's concerns:

- During the fourth quarter, Freddie Mac hired a director with significant private-label MBS experience to draft the policy and direct reporting, monitoring, and loss mitigation efforts for the chief credit officer.
- Management improved private-label MBS and commercial MBS reporting.

Market Risk Management

Market risk is rated **critical concerns.** The rating is based on (1) a high level of duration, convexity, and volatility risk relative to minimal capital and earnings, (2) historically high volatility of market interest rates and the mortgage basis; (3) unprecedented model uncertainty arising from government housing programs increasing the uncertainty of its interest rate risk estimates; and (4) several weaknesses in liquidity and private-label MBS risk management practices.

Liquidity and Funding Risks

The risk associated with Freddie Mac's liquidity and debt funding activities improved during 2009, but it continues to be a significant concern. Freddie Mac continuously accessed short-term, long-term and callable debt at favorable levels during 2009 but likely would not have had this funding access without government support. Agency debt purchases by the Federal Reserve significantly reduced debt spreads beginning in the first quarter of 2009.

The risk profile of Freddie Mac's liquidity and funding activities has been stable and has shown signs of improvement, but global financial market fragility highlights the criticality of liquidity risk. No formal government liquidity backstop now exists that would enable the Enterprise to convert its unencumbered collateral to cash.

Freddie Mac reduced its ratio of short-term debt to total debt during 2009. Freddie Mac also maintained the FHFA-required minimum 21 calendar day positive net cash position. However, FHFA increased the minimum position to 30 calendar days in late 2009.

Freddie Mac's liquidity risk management practices have improved but continue to be a significant concern. For example:

- Freddie Mac's long-term cash forecasting process needs improvement. In November 2009, Freddie Mac discovered its liquidity cash flow report (designed to address the issue of cash management raised in FHFA's 2008 *Report of*

Examination) did not properly reflect projected cash inflows and outflows for interest on debt and derivatives, resulting in a significant cash management 365-day forecasting error.

- Failure to operate within established liquidity and contingency risk management guidelines inhibited management's ability to effectively manage and monitor liquidity risk. In 2009, Enterprise management sought to make a significant investment in illiquid asset-backed commercial paper. FHFA's examination revealed it would have resulted in a high-risk, inappropriate investment for the liquidity portfolio had the transaction been consummated as management initially planned.

The following management activities improved Freddie Mac's liquidity risk management:

- Management increased the size of the liquidity and contingency portfolio during 2009.
- Management did not allow illiquid nonmortgage investments to be included in calculations of metrics for liquidity risk management. During 2009, management significantly reduced the balance of relatively illiquid nonmortgage investments.
- At year-end 2009, Freddie Mac had already met FHFA's new 30-day liquidity coverage requirement (communicated by FHFA on December 14, 2009). Freddie Mac also met the March 15, 2010, deadline for increasing the mix of Treasury Bills in its liquidity and contingency portfolio to reduce counterparty credit risk.

Interest Rate Risk Management

Interest rate risk management remained a challenge in 2009 because of high volatility in rates and the mortgage basis, as well as continuing declines in home values. External conditions significantly impeded Freddie Mac's ability to accurately measure and manage interest rate risk exposures—uncertainty about borrower response to government housing and stimulus programs decreased the reliability of interest rate risk estimates and required more on-top-adjustments by management.

As adjustments to model results became more frequent and required reconciliation between model projections and actual prepayments, management strengthened governance and increased transparency over on-top adjustments to production metrics. For example, Freddie Mac revised its prepayment model three times in 2009 and effectively governed the on-top adjustments prior to model implementation.

The Enterprise operated well within Board approved limits and management effectively remediated periodic breaches of management limits. Management responded constructively to FHFA concerns raised in the 2008 *Report of Examination* by lowering Board limits in a timely manner to reflect the absence of capital and earnings in conservatorship. Given the absence of capital and earnings together with model uncertainty, FHFA continues to have critical concerns regarding duration, convexity, and volatility exposures.

FHFA also found the following management practices helped mitigate some concerns about exposures relative to capital, earnings, and model uncertainty:

- Freddie Mac management appropriately governs on-top adjustments and ensures that executive management understands the use of on-top adjustments prior to corrective model implementation.

- Market risk oversight maintains an effective independent analytical view on exposures and on-top adjustments arising from model uncertainty.
- Freddie Mac constructively explored potential interest rate swap clearinghouses and has adopted an action plan to centrally clear and settle derivatives interest rate swap contracts.

Retained Portfolio Management

During 2009, Freddie Mac's retained portfolio decreased by $49 billion ending with an unpaid principal balance of $755 billion. The average monthly run-off was $12 billion. As of December 31, 2009, the retained portfolio's composition remained stable with agency MBS comprising 58 percent, and nonagency MBS and whole loans representing the balance. Net whole loan balances increased by 20 percent during 2009 to $139 billion. Whole loan mortgage asset classes are less liquid than agency securities. Liquidity of the retained portfolio will likely worsen during 2010 because accounting changes allow Freddie Mac to take advantage of substantial economic incentives to purchase 120-plus days delinquent loans out of pools.

Operational Risk Management

Operational risk management is rated **critical concerns**. The weak financial condition of the Enterprise and the uncertain market created a more complex and riskier operating environment. Significant organizational changes at senior levels, new industry initiatives, and the increase in delinquent loans and REO also increased the level of operational risk at the Enterprise.

During the last part of 2009, the need to allocate resources to two major accounting initiatives—implementation of consolidation accounting and Sarbanes Oxley 404 compliance—slowed other important work, including a project to improve the Enterprise's information technology infrastructure. Increased REO volumes are stressing operating processes, systems, and the information technology environment at the Enterprise.

In addition, the Enterprise played a significant industry role in developing and implementing initiatives to mitigate loan losses, such as serving the compliance function for the MHA program and the state housing finance agency program. Rapid development cycles, coupled with the breadth and depth of the programs, further increased operational risks in internal controls and information technology.

During the year, there were major positive changes in the senior management team, including new chief executive, operating, and financial officers, but changes in the operating environment increased operational risks.

Internal Controls

During 2009, significant demands and complexity in systems development required to implement key corporate priorities contributed to the increased level of risk in the internal control environment. The implementation of new controls, many of which are manual, and the compressed testing window for the new controls added an additional layer of operational risk.

In 2009, the Enterprise achieved the longtime corporate goal of completing its first comprehensive evaluation of internal controls over financial reporting in accordance with Sarbanes Oxley section 404. In turn, PwC completed its first report on internal controls over financial reporting. Despite a number of challenges, including the departure of a key leader during the third quarter, Freddie Mac demonstrated continuous progress throughout the year.

Mortgage defaults continue to increase and strain legacy processing systems in default asset management. Management is aware of the challenge and plans to ensure appropriate safeguards are in place to support this critical area.

The Enterprise faced challenging and complex requirements to implement consolidation accounting. The implementation led to the creation of a number of new controls being implemented within a short timeframe. Freddie Mac will test the new controls along with other Sarbanes Oxley controls during 2010.

Programs designed to assist distressed borrowers and prevent foreclosures were challenging and created additional layers of internal control stress and operational risks. The company integrated these programs into existing manual and automated loan refinance processes. The company continues to rely on inflexible manual processes and legacy systems to handle the increased volume of refinance transactions. The Enterprise is managing these operational risks by closely supervising the processes.

Information Technology

The Freddie Mac operations and technology unit managed successfully to meet major corporate priorities, which though necessary, delayed initiatives needed to upgrade the legacy infrastructure. Inflexibility in the legacy Enterprise infrastructure creates inability to efficiently complete initiatives such as MHA without requiring additional resources, manual processes, workarounds, and longer completion time frames.

Resources devoted to the other corporate priorities impeded the Enterprise's ability to focus on rebuilding the information technology infrastructure. Relying on legacy systems

- inhibits efficiency
- increases data quality risks
- increases risks as new end-user computing systems are developed to make up for inflexible technology
- stresses internal controls
- leads to key person dependency and increased operational risk at the company

Overall, the Enterprise made significant information technology improvements, such as strengthening information security and improving systems development life cycle methodology. Improvements to the system development method in conjunction with the associated quality control function have improved reliability of project deployments.

FHFA remains concerned about the layers of operational risk but recognizes the Enterprise is in the early stages of implementing a multiyear initiative to address some of the issues created by the legacy systems.

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Data Management

During 2009, the Enterprise continued to make progress on data quality initiatives, as demonstrated by regular monthly reporting on seller-supplied data, in-depth studies of potential problem data areas (product codes and housing goals reporting) and significant advances in validating data models and data dictionaries. In addition, the Enterprise implemented a new data governance framework. The Enterprise also substantially reduced the number of corrections needed for risky data.

The Enterprise should continue its progress to improve data quality in 2010, and it should develop and implement best practices in data management. Being in conservatorship and waiting for decisions about what will happen to the company after conservatorship complicates long-term strategic planning and implementation.

Operational Risk Management

Freddie Mac is building, refining, and enhancing foundation operational risk management program components at an acceptable pace. The operational risk management unit satisfactorily informs senior management, the Board of Directors and FHFA of existing and emerging operational risks, as well as operational loss events at Freddie Mac. Overall, the operational risk unit made satisfactory progress in operational risk reporting, governance, as well as fostering a culture attentive to operational risk across the Enterprise.

The major pillars of an operational risk management program described in FHFA's September 2009 Enterprise Guidance on Operational Risk Management are in place and functioning. Freddie Mac continues to develop and improve its program. Operational risk reporting is useful and takes an Enterprise-wide view. Operational incidents are being reported in a timely manner and a root-cause analysis process is in place. The scenario analysis work stimulates good dialogue and interaction with the business units. The Enterprise continues work related to establishing a risk-based operational risk capital charge.

In 2009, the Enterprise enhanced the program by refining a process to identify and report loss events as operational risk events, credit risk events or market risk events, which creates more internal attention and more accurately reflects the related capital measurements. The operational risk unit also led the Enterprise to evaluate REO risk and self-insurance strategies, which exemplifies a proactive risk management process.

Model Risk Management

At the start of 2009, some of Freddie Mac's key credit models, such as its loan loss reserve, loss forecasting, and guarantee fee pricing models were outdated. Others were current and performing well. During the year, management made substantial progress to update and improve these models. For example, the company deployed the new loan loss reserve model, used for loss reserves and loss forecasting, during the second quarter of 2009.

Model risk, the risk that model output does not match actual performance, remains high. An emerging source of this risk is house price forecasts, which have a dramatic impact on key credit and market risk metrics because they have become especially uncertain. Key sources of uncertainty are unprecedented levels of REO and seriously delinquent properties and the unknown effect of government programs such as MHA, federal income tax credits, and Federal Reserve MBS purchases. The output of important models, including default, severity, and prepayment models, are greatly affected by house price forecasts. As a result, the applications that use these to produce credit pricing and loss forecast and other accounting estimates have become more uncertain.

The volatile economic environment led to significant model risk during the year because of an unusually wide primary-secondary spread, house price volatility, the lack of credit availability, and the uncertainty of the impact of MHA programs. Prepayment models continued to predict faster than actual speeds across all major products during the year because the timing and magnitude of the effects of MHA are extremely difficult to predict.

During the year, management has been active in responding to the changing environment. Freddie Mac updated key prepayment models several times to attempt to better model the effect of government programs and capture prepayment speeds in a credit-constrained and volatile house price environment. After Freddie Mac released new prepayment models with improved modeling of house prices, credit factors, and structural changes for adjustable-rate mortgages, prepayment models started to perform reasonably well and to outperform some of the major dealer benchmarks.

The downturn in the housing market has spurred an effort to construct loss mitigation and property disposition models. Freddie Mac will need to maintain adequate staff to develop models that can assist in managing the dramatic increase in delinquencies and foreclosures seen in the current credit crisis.

Credit-related modeling issues and challenges include the following:

- Freddie Mac's house price forecast is conservative and may elevate model guarantee fee and loss forecasts. The scope of the committee responsible for the review and approval of the forecast was not sufficiently comprehensive and key elements of the forecast were not being evaluated. Management has remediated this issue, and it is being evaluated by internal audit.
- The current default model used for guarantee fee pricing was estimated in 2005 with old data. Although several calibrations were made to the default model coefficients over time to improve performance, this model needs to be updated with current data. Freddie Mac is working on a comprehensive re-estimation.
- The company implemented the new loan loss reserve model in the second quarter, replacing an outdated legacy system. The new model is a substantial improvement over the old model and produces reasonable results. It incorporates updated information as well as data on key credit drivers, such as delinquency status and current market loan-to-value ratios. The new loan loss reserve model is also now being used as the core model for creating credit loss forecasts.
- The Enterprise is faced with an increasing number of borrowers who either do not qualify for or will fail the MHA modification program trial. The Enterprise is pursuing development of its own version of a net present value model to help make future loss mitigation decisions.
- An emerging issue is the need to enhance analytics used to evaluate servicer performance. In the current environment, the demands on servicers have shifted from mainly payment collection to loss mitigation. As a result, the Enterprise now has to develop methods to adequately evaluate each servicer's ability to implement and execute loss mitigation programs.

FHFA's market risk modeling observations include the following:

- Modeling prepayments is difficult in a market where many borrowers are credit challenged and the impact of government and Enterprise loan modification programs is uncertain.
- Modeling interest rates is difficult in a market dominated by government policy decisions affecting not only Treasury rates but also spreads on MBS.

Model Controls and Governance

Model controls and governance improved in 2009 as substantial resources were devoted to addressing model governance issues. The model risk oversight function within the Enterprise risk oversight division conducts effective model reviews, although there are questions as to how effectively the workload is prioritized, managed, and reported. The model audit function within internal audit clarified and expanded its scope and brought in significant resources to achieve coverage of the Enterprise's increased level of model risk. The following examples illustrate model audit function improvements in 2009:

- In early 2009, internal audit responded in a comprehensive manner to FHFA's concerns that the model audit function was understaffed in light of the significant increase in model risk. Internal audit surveyed the industry to determine an appropriate Enterprise-wide model risk management framework and its role within that framework. Internal audit increased staffing, expanded and accelerated certain model audit activities, and began a planning process to reframe the Enterprise-wide model risk assessment process.
- Internal audit's new model risk assessment framework, to be fully implemented in 2010, incorporates three layers of model risk management and oversight. To improve cooperation and coordination, internal audit sought "buy-in" from other areas for the revised and expanded process.
- The company significantly expanded the model audit plan in 2009 to allow the group to benchmark the quality of model risk management. In order to complete the expanded plan, several qualified personnel and subject matter experts have been added to the team. In-depth model audits yielded enhancements to the modeling processes.
- The loss severity of T-deals was understated in the fourth quarter due to a calculation error. The error has been remediated, and a root-cause analysis has been completed.
- In the face of increased demands for model reviews in 2009, model risk oversight shifted its model review focus toward financial reporting models and away from other operational models. There were questions regarding how the unit prioritized, managed, and reported on the status of that work.

Report of Examinations of the Federal Home Loan Banks

Examination Authority and Scope

Section 20 of the Federal Home Loan Bank Act (12 USC 1440) requires examinations of each FHLBank at least annually. FHFA's Division of FHLBank Regulation is responsible for carrying out on-site examinations and ongoing supervision of the FHLBank System. The FHLBank System includes the Office of Finance and 12 FHLBanks: Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Chicago, Des Moines, Dallas, Topeka, San Francisco, and Seattle.

Through its examinations, data analysis, and risk monitoring activities, the division identifies matters requiring corrective action by the FHLBanks and monitors steps to correct deficiencies. The examination program promotes the continued safe and sound condition of each FHLBank and the achievement of their housing finance and community investment mission. In 2009, FHFA examined all FHLBanks and the Office of Finance. On-site comprehensive annual examinations normally take 5 to 15 weeks. In addition, FHFA examiners visit FHLBanks between examinations. The agency has designated an examiner-in-charge who communicates regularly with FHLBank management for each FHLBank and the Office of Finance.

FHFA examiners use a risk-based approach to supervision. Examinations focus on the principal risks at the particular FHLBank. Examinations assess the role of the FHLBank's Board and management in overseeing the FHLBank's activities; evaluate the quality and effectiveness of risk management at the FHLBank; and review the FHLBank's financial condition and performance.

In addition to examiners, analysts, accountants, economists, and modelers participate in the examinations.

FHFA's Division of FHLBank Regulation's supervisory program also includes off-site monitoring and analysis activities of the FHLBank, such as reviews of monthly and quarterly financial information submitted in call reports and available in the FHLBanks' securities filings. The division also monitors the debt issuance activities carried out by the Office of Finance, a joint office of the FHLBanks, and tracks financial market trends. The division reviews FHLBank documents, such as the Board of Directors' packages for each FHLBank, and analyzes responses to a wide array of periodic and ad hoc information and data requests, including an annual survey of FHLBank collateral and collateral management practices and periodic data on the FHLBanks' holdings of private-label MBS. In 2009, the division conducted a horizontal review of collateral practices and secured lending at the FHLBanks.

Governance

Effective corporate governance at the FHLBanks involves engaged, capable, and experienced directors and senior management; a coherent strategy and business plan; effective and appropriate risk limits and controls; and strong lines of responsibility and accountability. Those attributes exist to a degree among the FHLBanks, but the 2009 examinations identified several governance shortcomings. Some FHLBanks paid insufficient attention to the credit risk associated with private-label MBS and relied too heavily on credit ratings in making investment decisions. Many did not adjust their retained earnings targets in response to deterioration in the credit quality of their private-label MBS holdings.

In some FHLBanks, the Board of Directors did not ensure risks be overseen on an enterprise-wide basis, leading to incomplete separation between risk taking and risk management, reporting, and control. In a few instances, shortcomings in staffing and resources allocated to the Affordable Housing Program (AHP) reflected Board and management inattention to the program and the information management systems needed to support an effective AHP. A number of FHLBanks allocated insufficient resources to information technology.

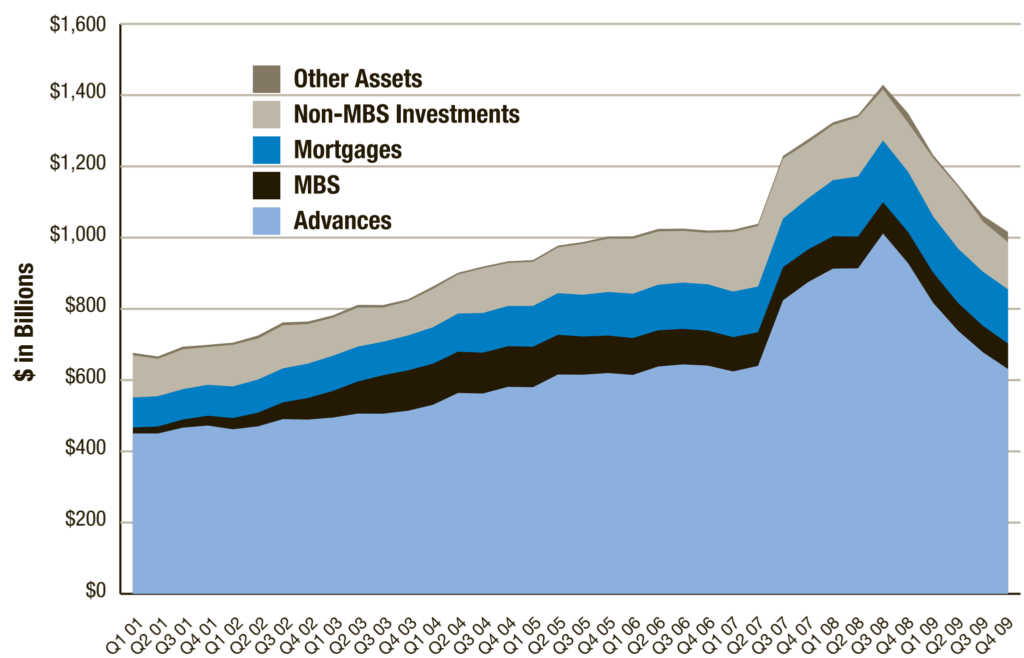
In general, operation of the Boards of Directors of the FHLBanks improved during 2009, reflecting efforts made by the FHLBanks to address previously identified deficiencies. It will take some time at a few FHLBanks to recover fully from the effects of decisions made in previous years, particularly decisions by some FHLBanks to invest in private-label MBS in 2005-2008.

Financial Condition and Performance

The financial condition and performance of the FHLBanks generally deteriorated in 2009, principally due to their exposure to private-label MBS and declines in advance volume. Net income increased in 2009 from the depressed levels recorded in 2008, but the improvement is largely attributable to changes in generally accepted accounting principles in the United States governing accounting for other-than-temporary impairment on certain investment securities. Four FHLBanks recorded a loss for the year. At year-end 2009, all FHLBanks met the minimum statutory leverage capital requirement of 4 percent of total assets.

The FHLBanks ended 2009 with total assets of $1.02 trillion, down from $1.35 trillion at the end of 2008. The decline in assets recorded in 2009 was almost entirely attributable to a decrease in loans to member institutions (advances). Advances remain the largest balance-

Figure 33 • Portfolio Composition of the Federal Home Loan Banks



Source: Federal Housing Finance Agency

sheet item of the FHLBanks, at $631 billion at year end. The figure represents a $298 billion decrease from the year-end 2008 balance of $929 billion.

Mortgage loans held by the FHLBanks were $71.4 billion at the end of 2009, down from $87.4 billion one year earlier. Mortgage loans have been trending downward since the middle of 2004 when mortgage balances were $115.9 billion. The FHLBanks acquired $8 billion of mortgage loans in 2009. Repayments and prepayments were $21.5 billion.

The stabilization of economic conditions during 2009 resulted in a more favorable funding environment for the FHLBanks relative to 2008. Although the principal amount of FHLBank debt outstanding fell by $322.6 billion during the year due to lower advance demand, access to the capital markets improved as spreads relative to LIBOR reached historically favorable levels.

Net income for 2009 was $1.86 billion, up from the 2008 level of $1.21 billion. Although total interest income of the FHLBanks declined by $24.69 billion, total interest expense fell by an

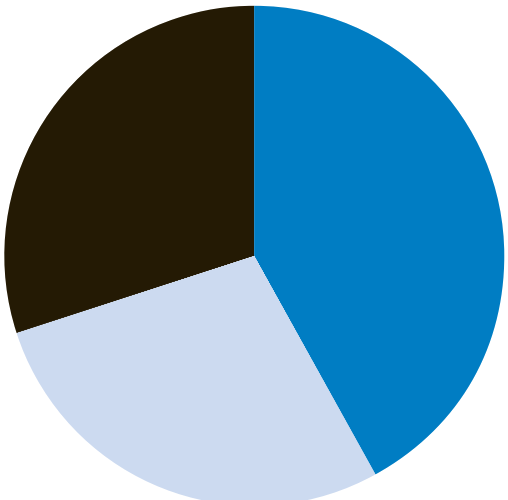
Figure 34 • Summary of Financial Data of the Federal Home Loan Banks

(Dollar amounts in millions)

Selected Statement of Condition Data at December 31	2009	2008	2007	2006	2005
Advances	631,159	928,638	875,061	640,681	619,860
Mortgage loans held for portfolio (net)	71,437	87,361	91,610	97,976	105,240
Investments	284,351	305,913	297,058	270,319	266,453
Total assets	1,015,583	1,349,053	1,271,800	1,015,304	997,387
Consolidated obligations (net)	934,876	1,258,267	1,178,916	934,214	915,901
Total capital stock	44,982	49,551	50,253	42,001	42,043
Retained earnings	6,033	2,936	3,689	3,144	2,600
Total capital	42,809	51,530	53,597	44,986	44,480
Selected Statement of Income Data for the year ended December 31	**2009**	**2008**	**2007**	**2006**	**2005**
Total interest income	20,909	45,595	57,024	50,541	35,420
Total interest expense	15,477	40,352	52,507	46,248	31,213
Net interest income	5,432	5,243	4,517	4,293	4,207
Provision (reversal) for credit losses	18	11	3	-1	1
Net interest income after loss provision	5,414	5,232	4,514	4,294	4,206
Total other income (loss)	-1,786	-2,350	127	3	-60
Total other expense	943	1,076	792	743	729
Affordable Housing Program	258	188	318	295	282
REFCORP	572	412	704	647	625
Total assessments	830	600	1,022	942	907
Cumulative effect of change in accounting principles before assessments					15
Net income	1,855	1,206	2,827	2,612	2,525
Selected Other Data for the year ended December 31	**2009**	**2008**	**2007**	**2006**	**2005**
Cash and stock dividends	641	1,975	2,282	2,069	1,669
Weighted average dividend rate	1.21%	3.80%	5.22%	4.40%	4.06%
Return on average equity	3.95%	2.17%	6.01%	5.80%	5.84%
Return on average assets	0.16%	0.09%	0.26%	0.26%	0.26%

Source: Federal Housing Finance Agency

Figure 35 • Summary of Ratings of FHLBank Private-Label MBS (Carrying Value)



Source: Federal Housing Finance Agency

even larger amount generating higher net interest income on a smaller asset base. As a result, the return on average assets was 0.16 percent, compared to 0.09 percent in 2008. The net interest spread, which is the difference between the weighted average yield on assets and the weighted average cost of liabilities, increased to 0.39 percent for 2009, up from 0.24 percent in 2008.

Holdings of private-label MBS are currently the most significant factor affecting the financial condition and performance of the FHLBanks. As of December 31, 2009, the FHLBanks held $104 billion of agency MBS and $48 billion of private-label MBS. During 2009, the quality of the FHLBanks' private-label MBS portfolio deteriorated, as measured by a decline in market value and an increase in the number of bonds downgraded by a Nationally Recognized Statistical Rating Organization.

An FHLBank must hold sufficient regulatory capital to meet the greater of either the leverage capital requirement or risk-based capital requirements. The only exception is the FHLBank of Chicago, which has not yet converted the capital structure authorized by the Gramm-Leach-Bliley Act of 1999. The Chicago FHLBank is operating under a cease and desist order that includes a minimum capital level and a minimum capital-to-assets ratio, and the FHLBank complies with those capital requirements.

The FHLBanks' regulatory capital generally consists of the amounts paid by member institutions for FHLBank capital stock and the retained earnings of the FHLBank. As of December 31, 2009, all 12 FHLBanks exceeded the minimum leverage ratio by having at least 4 percent capital-to-assets. The FHLBanks' regulatory capital at December 31, 2009, was $60.2 billion, consisting of $45 billion of capital stock, $6.1 billion of retained earnings, and $9.1 billion of other regulatory capital. This was principally mandatorily redeemable capital stock, which arises typically out of capital stock redemption requests by members or any capital stock held by a nonmember, including the Federal Deposit Insurance Corporation as a receiver for former members. The weighted average regulatory capital to assets ratio for the FHLBank System was 5.92 percent.

One FHLBank, the FHLBank of Seattle, did not meet its minimum risk-based capital requirement as of March 31, 2009, and June 30, 2009, because other-than-temporary impairment charges reduced total capital and the continued depreciation of its private-label MBS increased its market risk capital requirement. As a result, FHFA deemed the FHLBank undercapitalized. The FHLBank did meet its minimum risk-based capital requirement as of September 30, 2009; however, the Director, using his discretionary authority, deemed the FHLBank "undercapitalized" under the agency's prompt corrective action rule.

At the end of 2009, the FHLBanks had 8,066 members—1,146 savings associations, 5,707 commercial banks, 1,003 credit unions, and 210 insurance companies. Approximately 70 percent of members are also FHLBank borrowers.

Credit Risk Management

Credit risk is moderately high and stable, and credit risk management is generally adequate, but needs improvement. In 2009, financial and mortgage market instability affected the value of certain assets, particularly private-label MBS, and led to an increase in financial institution failures, including some FHLBank member institutions. Counterparty risk is elevated and stable, as federal government initiatives and programs soothe domestic credit markets. The collateral commonly pledged by members — mortgage loans and mortgage-backed assets — continue to be difficult to value. In response, FHLBanks have generally increased collateral "haircuts," which are protective reductions in borrowing capacity, to mitigate heightened credit risk on advances.

FHFA 2009 examinations concluded the FHLBanks of Boston, Pittsburgh, Chicago, San Francisco, and Seattle have high levels of credit risk. The remaining seven FHLBanks have moderate levels of credit risk. Examinations also concluded that the FHLBanks of Boston, New York, Pittsburgh, and Atlanta have weak credit risk management, and the remaining eight FHLBanks have adequate credit risk management. FHLBanks need more frequent and conservative assessments of member condition, and better quantitative support for collateral haircuts.

Advances carry low credit risk. To obtain an advance, members must pledge eligible collateral with a market value that exceeds the amount of the advance. The FHLBanks either (1) perfect a blanket lien on all or a portion of the member's assets; (2) require the member to list specific assets as collateral; or (3) take delivery of the collateral. If a member's financial condition deteriorates, collateral status normally changes from blanket to listing to delivery. FHLBanks typically adjust collateral haircuts depending on the quality of the pledged assets and the financial condition of a member. In addition, all FHLBanks take delivery of all securities pledged as collateral, and most require insurance companies and some other members to deliver collateral. Although examinations identified deficiencies in collateral management practices at several FHLBanks, no FHLBank has ever incurred a loss on an advance to a member institution.

Insurance Companies and FHLBanks

Insurance companies are assuming a more important role as FHLBank members.

At the end of 2009, there were 210 insurance company members with aggregate advances of $48.3 billion. This compares with 111 insurance company members with advances of $11.5 billion at the end of 2005. Insurance company members play a particularly important role at the FHLBanks of New York, Indianapolis, Des Moines, and Topeka.

The credit risk issue presented by insurance companies is primarily in the treatment of collateral if an insurance company member were to be liquidated. When a commercial bank or savings association member is liquidated, the FDIC is appointed receiver. FDIC pays off the advance, and the FHLBank releases the collateral. The process is similar when the National Credit Union Administration is appointed receiver for a failed credit union member.

Insurance companies have no federal regulator. Treatment of collateral upon the liquidation of an insurance company is a matter of state law. FHLBanks take possession of the collateral pledged by insurance company members, but uncertainty arises because a state insurance commissioner could assert claim to that collateral if the insurance company fails, especially since secured borrowing by insurance companies is not commonplace.

FHLBanks and the Challenges of Private-Label MBS

Private-label MBS are a significant supervisory issue facing a number of the FHLBanks.

Private-label MBS are residential mortgage-backed securities where the underlying loans or pools of loans are not guaranteed by the Enterprises (Fannie Mae and Freddie Mac) or Ginnie Mae (the Government National Mortgage Association). Although all the private-label MBS held by the FHLBanks had a triple-A rating at the time of purchase, the FHLBanks have incurred credit charges on some of these securities. As of December 31, 2009, FHLBanks held 52 percent prime, 44 percent Alt-A, and 4 percent subprime securities. One-fourth of aggregate holdings were triple-A rated and one-half were below investment grade.

During 2009, FHLBanks incurred credit-related other-than-temporary impairment of $2.4 billion and noncredit-related other-than-temporary impairment of $9 billion on $48.1 billion of private-label MBS. In 2008, FHLBanks incurred total other-than-temporary impairment charges of $2 billion. Under new 2009 GAAP rules, FHLBanks were able to recover the almost $1.9 billion of estimated 2008 noncredit-related impairment charges from retained earnings to accumulated other comprehensive income.

At December 31, 2009, private-label MBS amounted to 4.7 percent of the assets of the FHLBanks. The FHLBanks of Cincinnati and Des Moines had inconsequential holdings of private-label MBS. Five of the FHLBanks incurred credit-related impairment on private-label MBS of $21 million or less in 2009; six FHLBanks incurred credit-related impairment charges of more than $200 million.

Accumulated other comprehensive income reflects mostly the noncredit impairment on private-label MBS. Eight FHLBanks have accumulated other comprehensive losses less than their retained earnings. This means these FHLBanks would still have positive retained earnings if all existing noncredit losses were recategorized and charged to earnings. Accumulated other comprehensive income is large relative to retained earnings for the FHLBanks of Boston and Seattle.

Deterioration in the quality of the FHLBanks' private-label MBS, as measured by adverse rating actions and other-than-temporary impairment charges, continued in 2009. The FHLBanks of Boston, Pittsburgh, Atlanta, Chicago, Indianapolis, San Francisco, and Seattle have sufficient holdings of downgraded or impaired private-label MBS to warrant heightened supervisory attention.

The FHLBanks have mortgage loan holdings of $71 billion at the end of 2009, down from $87.4 billion at the end of 2008. These portfolios do not present significant credit risk. The loans are fixed-rate amortizing loans, well-seasoned, written to traditional underwriting standards, have high credit scores and relatively low loan-to-value ratios, and are credit enhanced either by the member who sold the loan to the FHLBank or by supplemental mortgage insurance. At the end of 2009, only 0.52 percent of these portfolios were on nonaccrual status, although that figure is up from 0.19 percent in 2008. Foreclosures outstanding at the end of the fourth quarter of 2009 were $540 million, up from $164 million at the fourth quarter of 2008, and net charge-offs were $345,000 compared to $31,000 a year ago.

Figure 36 • FHLBank Values of Private-Label MBS

As of December 31, 2009 (Dollar amounts in millions)

FHLBank	Total Assets	PLMBS Carrying Value	PLMBS Fair Value	2009 Credit OTTI	2009 Noncredit OTTI	AOCI/Retained Earnings
Boston	62,487	2,160	2,070	444	885	7.16
New York	114,461	1,064	978	21	120	0.21
Pittsburgh	65,291	5,925	5,517	229	1,058	1.78
Atlanta	151,311	11,551	10,680	316	915	0.85
Cincinnati	71,387	187	187	0	0	0.02
Indianapolis	46,599	2,506	2,439	60	352	0.94
Chicago	88,074	2,444	2,603	437	945	0.93
Des Moines	64,657	69	61	0	0	0.07
Dallas	65,092	501	433	4	76	0.19
Topeka	42,632	1,861	1,673	1	8	0.03
San Francisco	192,862	16,291	14,840	608	3,513	2.89
Seattle	51,094	3,511	3,026	311	1,101	17.18
Total	1,015,947	48,070	44,507	2,431	8,975	1.36

Source: FHFA

Note: The noncredit other-than-temporary impairment reflects the amount recording on the Statement of Income. The amount of noncredit impairment in accumulated other comprehensive income will differ from this amount if there are subsequent market value changes in private-label MBS categorized as available-for-sale.

Market Risk Management

Mortgage assets continue to be the greatest source of market risk for the FHLBanks. Mortgage assets are typically longer-dated instruments than most other FHLBank assets, have less predictable cash flows, and, in the case of private-label MBS, have experienced the greatest swings in market value. At the end of 2009, FHLBanks held, in market value terms, whole loan mortgages equal to $74 billion and mortgage securities equal to $151 billion (down from $91 billion and $153 billion at the end of 2008).

Chicago, Indianapolis, and Des Moines had the largest whole loan portfolios at the end of 2008, both in dollar volume and as a percentage of assets, but each substantially reduced its holdings during 2009. Only Cincinnati and Topeka had net increases in whole mortgage loans during 2009.

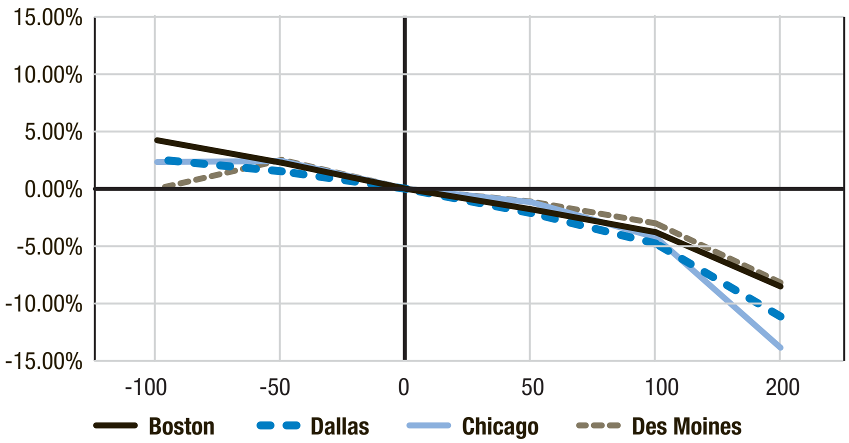
Although the FHLBanks with declining mortgage portfolios should ultimately have an easier time managing market risk, they face potential asset and liability mismatches during the transition. Some FHLBanks with significant mortgage holdings hedge the market risk by extensive use of callable bonds, often with American call options, to fund those assets. Other FHLBanks, Chicago in particular, use a more complicated hedging strategy that involves using interest-rate swaps, swaptions (options to enter into interest-rate swaps), and options.

The System's market value of equity, which is the estimated market value of the System's assets less the market value of its liabilities, was $49.2 billion at the end of 2007, or 90 percent of the book value of equity and 96 percent of par value of the FHLBanks' capital stock. By the end of 2008, the market value of equity had decreased to $30.5 billion, or 53 percent of the book value of equity and 54 percent of par stock.

During 2009, the market value of equity recovered to $46.8 billion, or 92 percent of the book value of equity and 88 percent of par stock. The vast majority of these market value fluctuations are explained by fluctuations in the value of the System's mortgage-related assets, as mortgage rates increased substantially relative to other rates in late 2008 and early 2009, then fell dramatically through the remainder of 2009. A significant slow-down in mortgage prepayment speeds also led to an increase in the market value of equity.

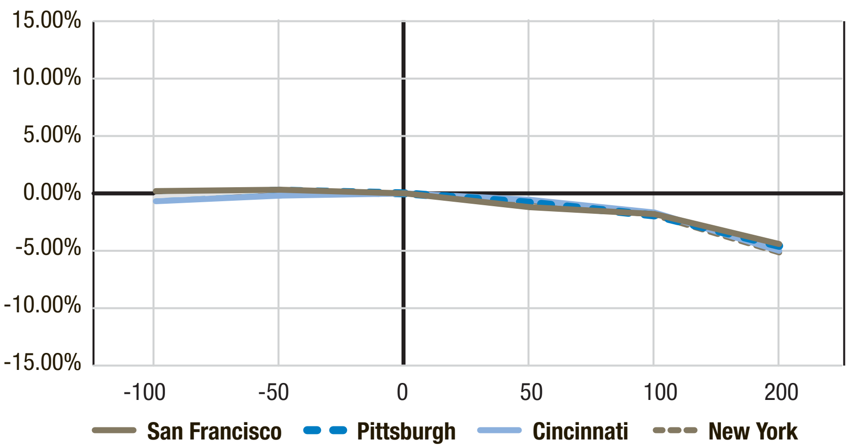
The market value of equity relative to book value

Figure 37 • FHLBanks with Duration of Equity > 3.5
x-axis = size of interest rate shock, y-axis = % change in MVE



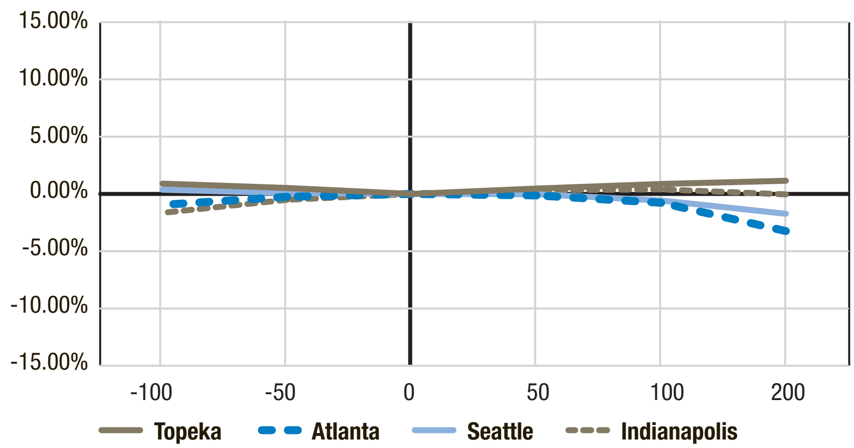
Source: FHLBanks

Figure 38 • FHLBanks with 0.35 < Duration of Equity < 1.6
x-axis = size of interest rate shock, y-axis = % change in MVE



Source: FHLBanks

Figure 39 • FHLBanks with Duration of Equity < 0.35
x-axis = size of interest rate shock, y-axis = % change in MVE



Source: FHLBanks

of equity is often an indicator of future income relative to market returns, and the market value of equity relative to par stock is an indicator of the FHLBanks' abilities to redeem stock at par.

Figures 37 through 39 show the sensitivity of the FHLBanks' market value of equity to changes in market rates based on results provided by the FHLBanks. For rate increases, the assumption is that all market rates increase by the same amount (50, 100, or 200 basis points). For rate decreases, because of the extremely low interest rates on instruments with short maturities, the assumption is that all rates fall by the same amount (50 or 100 basis points). The exception is they are restricted from falling below zero.

These graphs divide the FHLBanks into three groups of four based on their effective durations of equity. Duration of equity is calculated as the estimated change in market value of equity for a hypothetical 50 basis point increase in rates plus the change in market value of equity for a hypothetical 50 basis point decrease in rates.

The sensitivity measures used here include adjusted sensitivities for Atlanta, Boston, Chicago, Pittsburgh, and San Francisco. For these FHLBanks, the adjustment is to offset the effects of heavily discounted private-label MBS on their risk metrics. Significant holdings of heavily discounted private-label MBS can distort risk metrics by causing models to overstate gains in falling rate environments and losses in rising rate scenarios. By these measures, the duration of equity for the System was 1.26 years at the end of 2009.

The FHLBanks depicted in Figure 37 estimate losses in market value of equity of greater than 5 percent for a rate increase of 200 basis points and small gains for a rate decrease of 50 basis points. The FHLBanks depicted in Figure 38 estimate smaller market value of equity losses if rates were to rise and no significant change in market value of equity if rates were to fall. Finally, the FHLBanks depicted in Figure 39 estimate insignificant changes in market value of equity if rates were to fall or rise. Overall, the sensitivity of market value of equity to changing interest rates is small relative to recent periods.

At the end of the third quarter of 2009, for example, five FHLBanks estimated market value of equity losses of greater than 5 percent for a 200 basis point rate increase, and two estimated market value of equity losses of greater than 2.5 percent for a 100 basis point rate decrease. Uncertainty about private-label MBS adjustments related to market risk metrics, prepayment speeds, and the effects of extremely low interest rates at short maturities all serve to increase model risk. Consequently, FHFA has less confidence than usual in the FHLBanks' reported results.

Operational Risk Management

Operational risk is the risk of losses due to failures of integral processes or systems, fraud, human error, or external events. High levels of operational risk may lead to reporting errors to members, investors, and regulators. In 2009, the FHLBanks did not suffer operational failures that caused substantial losses.

The FHLBanks are large financial institutions with inherent operational risk magnified by manual processes and user-developed applications. They need to use financial models, enterprise resource systems, and ledger accounting systems under adequate supervision and have appropriate policies or procedures. Over the past several years, examiners have frequently criticized the number of user-developed applications at the FHLBanks, their critical role in management information systems, and the generally slow pace at some FHLBanks in replacing them with better solutions.

The FHLBanks have addressed certain FHLBank system-level operational risks by adopting internal controls effective in detecting and preventing operational concerns. All FHLBanks have sufficient business continuity plans and back-up locations, though, in some cases, the back-up location is only several miles away. Examiners regularly evaluate these plans.

Affordable housing and community investment activities present the potential for operational risk that could affect an FHLBank's reputation. FHFA's examinations have recently cited concerns about inadequate management information systems, slow project completions, backlog in project monitoring, and shortcomings in the administration of set-aside funds.

FHLBanks' Examination Conclusions

FHLBank of Boston

Overview

The FHLBank of Boston is the ninth largest FHLBank with total assets of $62.5 billion. The overall condition of the FHLBank of Boston presents supervisory concerns, primarily because of the significant challenges associated with its private-label MBS portfolio. Credit-related losses on this portfolio led to annual net losses in 2008 and 2009, and the FHLBank of Boston faces the risk of additional impairment charges going forward. The FHLBank of Boston restricted dividend payouts and excess stock repurchases throughout 2009 to preserve capital. Retained earnings remain insufficient relative to potential losses. The challenges within the private-label MBS portfolio reflect weaknesses in corporate governance and risk management.

Since FHFA's 2009 on-site examination, which ended in June, the FHLBank of Boston employed a new president to work through the challenges and developed a capital stabilization and operating growth plan. However, overcoming weakness in the existing private-label MBS portfolio and returning the FHLBank to a safe and sound condition will take years and will come only with the Board's and management's energy and efforts.

Condition and Performance

The FHLBank of Boston's financial condition and performance are weak. The FHLBank of Boston's total asset base declined 22 percent year-over-year due to a sharp reduction in advances to its largest members. At year-end 2009, advances were down 34 percent from December 2008 and down 43 percent from the record high in October 2008 and have returned to precrisis levels. While the FHLBank of Boston maintained strong core earnings, they have not been sufficient to offset mounting other-than-temporary impairment charges.

As of December 31, 2009, the par value of Boston's private-label MBS portfolio was $3.6 billion and the fair value was $2.1 billion. Boston had the lowest ratio of fair value to par value in the System (58 percent), partly due to credit-related factors. Boston's private-label MBS portfolio performed poorly during the year and it had the second highest ratio of total other-than-temporary impairment to beginning year par value (30 percent) and the highest ratio of credit-related other-than-temporary impairment to beginning year par value. As of December 31, 2009, 75 percent of Boston's private-label MBS was below investment grade, the second-highest share of below-investment-grade MBS in the System.

A significant factor in the performance of the FHLBank of Boston's portfolio was its large holdings of Alt-A securities, which accounted for 85 percent of its private-label MBS, the highest share in the System. In 2009, the FHLBank of Boston recognized $444.1 million in credit-related impairment charges.

The Board and management face significant challenges in managing the private-label MBS portfolio. The FHLBank of Boston's financial condition is the result of investment in assets with unacceptably high levels of credit risk and failure to maintain retained earnings to mitigate that risk. Risk in the private-label MBS portfolio exposes the FHLBank of Boston to continuing impairment charges. The FHLBank of Boston's retained earnings must increase substantially to support this level of risk.

The Board ceased dividend payments and stock repurchases, but these actions have not been sufficient to restore retained earnings to an adequate level in an acceptable period. As of December 31, 2009, the FHLBank of Boston met all its capital requirements.

Risk Management

Faced with excessive risk in the private-label MBS portfolio, the FHLBank of Boston has limited ability to absorb other risks. The FHLBank of Boston has not adjusted its market risk metrics to account for possible distortion from the unusually large private-label MBS option-adjusted spreads. Unadjusted risk metrics could lead to poor decisions. The FHLBank of Boston has not properly measured or established limits for the amount of basis, refunding, and reset risk it is currently undertaking with its pooled funding strategy. Monitoring of credit risk in the private-label MBS portfolio has improved since the 2008 examination, but the FHLBank of Boston needs to enhance the monitoring of credit exposure to members.

In the area of information technology, FHFA noted several concerns, including project failure, incomplete and late implementation of critical systems, inadequate project priorities, and insufficient information technology reporting to management committees and the Board.

Since the 2009 examination, the FHLBank of Boston has addressed more than 85 percent of supervisory findings. FHFA's preliminary review indicates the FHLBank of Boston has given attention to and made progress on addressing deficiencies.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	High	Weak
Operational Risk	Moderate	Weak
Corporate Governance		Weak

Affordable Housing Program

The FHLBank of Boston satisfactorily addressed AHP issues raised during the 2008 examination.

Par Value vs. Carrying Value

Par value is the face value or unpaid principal balance on a mortgage-backed security.

Par value is expected to decrease over the life of MBS as principal on the underlying collateral is paid down. Par value does not reflect other-than-temporary impairment. The amortized cost basis of MBS is the par value adjusted for discounts, premiums, and credit-related impairment.

The carrying value of the MBS depends on whether the FHLBank designates the security as held-to-maturity or available-for-sale.

If held-to-maturity, the carrying value is approximately equal to the amortized cost basis adjusted for noncredit-related other-than-temporary impairment. If available-for-sale, the carrying value of the MBS mirrors its fair value, which is an estimate of the amount that could reasonably be expected for an investment in a current sale between a willing buyer and a willing seller. Another name for that is the market value.

The examination focused on housing needs identification and prioritization. The Boston FHLBank identified combating the foreclosure crisis, promoting energy-efficient housing, and developing affordable housing for first-time and workforce homebuyers as critical housing issues and set out to address them through its AHP competitive or set-aside programs. Due to Boston's weak financial performance in 2008, funds were limited because no statutory contributions were available for the 2009 program year, which substantially reduced opportunities to award AHP subsidies. Boston was able to provide limited competitive and set-aside program funding through subsidy recaptures, repayments, and deobligations from previously approved subsidy awards.

FHLBank of New York

Overview

The FHLBank of New York is the third largest FHLBank with total assets of $114 billion. The FHLBank of New York's overall condition and performance reflect historically strong earnings, a relatively low risk profile, adequate retained earnings, and a favorable earnings outlook. The FHLBank has weathered the economic crisis better than other FHLBanks.

Condition and Performance

The FHLBank of New York's financial condition and performance are strong. The FHLBank's portfolio consists of 82 percent advances, 1 percent mortgages, and 14 percent investments. It has the highest percentage of advances in the System, and its $1 billion of private-label MBS represent 1 percent of its total assets, among the lowest in the System. The FHLBank is well capitalized, with a 4.9 percent capital-to-assets ratio, and its retained earnings are $689 million or 0.6 percent of total assets.

New York's return on equity for 2009 was the second highest in the System. The FHLBank of New York achieved net income in 2009 of $571 million—more than double the net income level of $259 million in 2008. Earnings in 2010 will likely decline because of maturing advances originated at very wide spreads and some funding put in place when agency funding spreads relative to LIBOR were very wide. The FHLBank's market-to-book value of equity is 104 percent, the second highest in the System.

New York's private-label MBS portfolio totaled $1.2 billion in par value and $978 million in fair value as of December 31, 2009. Although the majority of New York's private-label MBS were subprime, only 20 percent were rated below investment grade. The FHLBank also had limited other-than-temporary impairment exposure with the ratio of total and credit other-than-temporary impairment to beginning year par value of 8 percent and 1 percent.

Insurance companies have become increasingly important to the FHLBank of New York. The district's insurance company borrowings of $19 billion are the largest in dollars and the fourth largest as measured by percentage of total district advances.

Risk Management

Although the FHLBank of New York's level of credit risk is moderate, credit risk management needs improvement. The FHLBank of New York has not yet fully addressed several areas criticized at the previous examination. The FHLBank of New York has not independently validated or sufficiently analyzed collateral haircuts and on-site collateral review procedures need strengthening to accurately assess subprime and nontraditional collateral. In addition, the member credit risk model has flaws, which may prevent timely action if a member's financial condition deteriorates rapidly. The FHLBank of New York does not conduct credit analyses for large borrowers or counterparties frequently enough.

FHFA identified new weaknesses in commercial and multifamily on-site collateral reviews and in practices regarding participation loans and large loans used as collateral. Specifically, the FHLBank of New York's on-site reviews for commercial and multifamily real estate loans are not timely, and the FHLBank of New York overrode commercial and multifamily collateral review results for two large member borrowers without appropriate justification. In addition, the FHLBank of New York needs to improve procedures for accepting large loans and participation loans in light of potential difficulties in a liquidation scenario.

Since the on-site examination, the FHLBank of New York informed FHFA that it has revised procedures regarding member and counterparty credit analysis and the member credit risk model and considers remediation on these weaknesses complete. The FHLBank of New York also has told FHFA it is in the process of addressing the remaining weaknesses. FHFA will review the remediation efforts in the 2010 examination.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Weak
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Affordable Housing Program

The FHLBank of New York addressed or is in the process of satisfactorily addressing AHP issues raised during the 2008 examination and is evaluating options for upgrading or replacing its AHP management information system. The 2009 examination focused on housing needs identification and prioritization. New York identified promotion of economic diversity, mixed-income housing, affordable workforce rental housing, homeless housing, owner-occupied housing rehabilitation, smart growth, and response to natural disasters as critical housing issues and set out to address them through the FHLBank of New York's AHP competitive or set-aside programs.

FHLBank of Pittsburgh

Overview

The FHLBank of Pittsburgh is the sixth largest FHLBank with total assets of $65.3 billion. The FHLBank of Pittsburgh faces substantial challenges. The key challenges facing the FHLBank of Pittsburgh include possible exposure to additional impairment charges on its private-label MBS portfolio, inadequate retained earnings relative to the risks facing the FHLBank of Pittsburgh, a depressed market value of equity, and a shrinking asset base. Other-than-temporary impairment charges on the FHLBank of Pittsburgh's private-label MBS portfolio severely limited net income in 2008 and resulted in a net loss in 2009, which has restricted the FHLBank of Pittsburgh's ability to increase retained earnings and weakened its capital position. To respond to FHFA's concerns about the adequacy of its capital base, the FHLBank of Pittsburgh submitted a capital stabilization plan to FHFA and suspended dividends and excess stock repurchases in 2009.

Condition and Performance

The FHLBank of Pittsburgh's financial condition and performance are weak. A large decline in advance activity caused the FHLBank of Pittsburgh's total assets to decline by 28 percent year-over-year. Advances have fallen 34 percent since December 2008 and 48 percent from a record high in January 2008. Pittsburgh has the second highest member concentration in the System, with its top 10 borrowers accounting for approximately 73 percent of all advances, and these members have accounted for the majority of the declines.

As of December 31, 2009, Pittsburgh's private-label MBS portfolio stood at $6.9 billion in par value and $5.5 billion in fair value. Although only one-third of Pittsburgh's private-label MBS holdings were Alt-A, those holdings accounted for more than half of Pittsburgh's 2009 credit other-than-temporary impairment.

The FHLBank of Pittsburgh's private-label MBS portfolio accounts for approximately 9 percent of its total assets. In 2009, credit-related impairment charges on the portfolio amounted to $229 million and led to an annual net loss of $37 million. Additional credit losses on the portfolio are possible and will continue to limit earnings in the near term. The Board and management face significant challenges related to the private-label MBS portfolio and its effects on the FHLBank of Pittsburgh's financial condition.

Risk Management

The overall risk profile of the FHLBank of Pittsburgh is high, due in large part to past Board and management risk taking in the securities portfolio, advances and collateral risk management functions, and market risk strategies. The level of risk in the private-label MBS portfolio remains high because of credit weaknesses in the underlying collateral that have resulted in low fair values for the securities. The risk is increasing as the economic and real estate environment remains weak, exposing the FHLBank of Pittsburgh to potential additional impairment charges.

The Board and management recognize the need to change and have set in motion several corrective initiatives. Actions include reassessing the FHLBank of Pittsburgh's risk appetite and focus; moving toward a simplified business model; hiring a new chief operating officer, chief risk officer, and chief credit officer; changing leadership in the capital markets function; developing a capital stabilization plan; and hiring a consultant to review enterprise risk management and the internal audit function. Collectively, these actions reflect the Board and management's commitment to return the FHLBank of Pittsburgh to sound financial health and condition.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	High	Adequate
Credit Risk	High	Weak
Operational Risk	Moderate	Adequate
Corporate Governance		Weak

Affordable Housing Program

The FHLBank of Pittsburgh satisfactorily addressed the AHP issues raised during the 2008 examination. The 2009 examination focused on housing needs identification and prioritization. Pittsburgh identified extremely low-income, special needs, homelessness, workforce, rural, elderly housing development, and aging housing stock rehabilitation as critical housing issues and set out to address them through the FHLBank of Pittsburgh's AHP competitive program. Due to Pittsburgh's financial performance in 2008, the FHLBank of Pittsburgh had limited funds from statutory contributions for the 2009 program year, thereby sharply reducing subsidy award opportunities. Among other measures, Pittsburgh also responded to current conditions by reducing the maximum project award to diversify competitive program awards.

FHLBank of Atlanta

Overview

Atlanta is the second largest FHLBank with assets of $151.3 billion. The FHLBank of Atlanta's assets fell by 27 percent in 2009, compared with a 25 percent decline for the overall System, due primarily to a shrinking portfolio of outstanding advances. Approximately 34 percent of the FHLBank of Atlanta's advances are outstanding to one member. Other assets have also been shrinking, but at a slower pace than advances.

Several aspects of the FHLBank of Atlanta's condition and performance are weak. FHFA's principal concern is $12.3 billion of private-label MBS that have generated other-than-temporary impairment and market value losses. In response, management conserved capital in 2009 by limiting capital redemptions and paying no dividend in the first and second quarters of the year. The FHLBank of Atlanta reported a return on equity of 3.6 percent and a return on assets of 0.16 percent in 2009, which was in line with the overall System return on equity of 3.9 percent and a System return on assets of 0.16 percent.

Condition and Performance

The FHLBank of Atlanta's financial condition and performance are weak principally due to other-than-temporary impairment on its private-label MBS portfolio coupled with high net income volatility. Net income from core operations exceeded impairment charges by a factor of two in 2009. Net income was $283 million in 2009, up 11 percent from 2008 because of decreased non-recurrent expenses that offset higher impairment of private-label MBS. Accounting rules require breaking out of certain hedging activities from net interest income, which increased gains on hedging activities and lowered net interest income in 2009.

Atlanta has the second largest private-label MBS portfolio in the System, with par and fair values of $12.7 billion and $10.7 billion. Fair value relative to par value increased from 76 percent at the beginning of 2009 to 84 percent at year end. The improvement in the market in 2009 for prime securities, which comprised nearly 90 percent of Atlanta's holdings, explains some of this improvement. Atlanta's portfolio of prime securities did not fully insulate it from difficulties. Although all of the FHLBank's private-label MBS were triple-A rated at the time of purchase, 40 percent of its prime securities are currently rated below investment grade. The share of credit to total other-than-temporary impairment in 2009 for Atlanta's private-label MBS portfolio was nearly 25 percent.

Atlanta's capital position has improved since the end of 2008 due to capital retention. Total regulatory capital has risen to 6.1 percent of assets at December 31, 2009, from 4.3 percent of assets at December 31, 2008. Retained earnings have risen to 0.58 percent of assets from 0.21 percent of assets a year earlier.

Risk Management

Credit and collateral management do not adequately mitigate and control the increasing level of credit risk caused by declining market values of real estate collateral. The 2010 examination focus is on improving corporate governance over credit risk management and oversight.

Credit risk management had maintained certain collateral valuations without documented support and despite lower valuation indications from the two models the FHLBank of Atlanta typically uses. These are significant shortcomings because model results indicated significant additional collateral was necessary for certain members to fully secure their advances. Board reporting of these exceptions has been inadequate. Forty-four members failed during 2009, but all advances to those members were adequately collateralized.

Additionally, the FHLBank of Atlanta failed to correct fully four weaknesses from previous examinations—FHFA cited two at more than one examination. These repeat findings, along with the management practices that led to instances of inadequate collateralization for advances, represent corporate governance failures.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Weak
Operational Risk	Moderate	Adequate
Corporate Governance		Weak

Affordable Housing Program

Over the last two years, the FHLBank of Atlanta has significantly strengthened administration of its AHP. Changes include new management, staffing additions, adoption of staff performance and accountability standards, enhanced policies and operating procedures, and an upgraded AHP management information system. During the 2009 examination, FHFA directed management's attention to address the relatively large portfolio of older incomplete AHP projects. Since the 2009 examination, the FHLBank of Atlanta has developed a plan to address these projects.

Atlanta identified combating predatory lending and the foreclosure crisis as critical housing issues and set out to address them through the FHLBank of Atlanta's AHP competitive and set-aside programs. Atlanta responded to current conditions by developing a scoring criterion that promotes foreclosure recovery through neighborhood stabilization programs.

FHLBank of Cincinnati

Overview

The FHLBank of Cincinnati is the fourth largest FHLBank with $71.4 billion in assets. The FHLBank of Cincinnati's whole mortgage loan portfolio increased in 2009, constituting a larger portion of the balance sheet. The FHLBank of Cincinnati continued a strong income trend in 2009, reporting its second largest annual net income in the last nine years. Although Cincinnati is exposed to market and credit risk in the mortgage portfolio, the FHLBank of Cincinnati's overall condition and performance are adequate.

Condition and Performance

The FHLBank of Cincinnati's financial condition and performance are adequate. The FHLBank of Cincinnati's balance sheet declined due to advances falling by 33.5 percent to $35.8 billion. Reflecting the decline in advances and total assets, mortgage assets (whole loan mortgages and MBS) increased significantly to 29 percent of assets, the second highest in the System. MBS declined by $1.4 billion in 2009. The MBS are heavily concentrated in federally guaranteed agency securities, with minimal exposure to private-label MBS of only $187 million. All holdings of private-label MBS date from 2003 or earlier and remain rated triple-A.

Regulatory capital levels declined in absolute terms because of the large decline in advances and the associated redemption of capital stock but rose in percentage terms and remain well above regulatory minimums. Excess capital stock—member stock investment beyond the requirements for membership and activity—continues to increase as advances decline, reaching more than one-third of capital stock outstanding.

Cincinnati remained profitable in 2009, with net income of $268 million, a return on equity of 6.38 percent, and a return on assets of 32 basis points. Net interest spread was 36 basis points, in line with System averages and the highest in the last nine years. The improvement is attributable to increased proportions of higher-margin assets such as mortgages, favorable conditions in the debt markets, and the calling of some higher-coupon callable bonds. The FHLBank of Cincinnati paid a dividend of 4.63 percent in 2009.

The FHLBank of Cincinnati faces some challenges over the next few years, including the possibility of a continued decline in member advance activity and a stressed regional economy. The FHLBank of Cincinnati has a large liquidity portfolio that limits earnings and exposes the FHLBank of Cincinnati to unsecured credit risk. Cincinnati has a history of managing market and credit risk adequately, but the increased concentration in mortgage assets poses risk management challenges as mortgage optionality is difficult to hedge. Profitability trends remain strong and above System averages, which increases retained earnings and allows the FHLBank of Cincinnati to continue to pay dividends. Capital levels are adequate and are likely to remain so because the FHLBank of Cincinnati has few private-label MBS, and it has recorded no impairments in these securities.

Risk Management

FHFA's primary supervisory concerns are in credit and collateral risk management and governance. The FHLBank of Cincinnati needed to improve counterparty credit analysis, collateral haircuts, collateral valuation, member liquidation collateral plans, and the risk rating credit model. Governance concerns include the effectiveness of a Board committee structure, sufficiency of audit processes, information technology, and lack of a limit for subprime and nontraditional mortgage collateral.

The FHLBank of Cincinnati has achieved substantial progress in addressing prior examination findings. For example, the Board has adopted a risk limit for mortgage-related assets and has implemented adequate oversight for information technology policies and strategies. In addition, the FHLBank of Cincinnati has instituted corrective action relating to collateral haircuts and has improved advances pricing controls.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Strong
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Affordable Housing Program

Since the 2008 examination, the FHLBank of Cincinnati strengthened administration of its AHP. Changes include reorganization of functional responsibilities and an AHP management information system upgrade. Management also has improved project monitoring and taken more aggressive measures to move projects toward completion or withdrawal. During the 2009 examination, FHFA directed management to continue to reduce project delays and enhance monitoring of owner-occupied rehabilitation projects to ensure appropriate use of funds and program effectiveness. Management has taken steps to address these issues.

The examination also considered housing needs identification and prioritization. Cincinnati identified special needs housing and combating the foreclosure crisis as critical housing issues and set out to address them through the FHLBank of Cincinnati's AHP competitive or set-aside programs.

FHLBank of Indianapolis

Overview

The FHLBank of Indianapolis is the second smallest FHLBank with total assets of $46.6 billion. Indianapolis carries $2.5 billion in private-label MBS, representing 46 percent of its MBS portfolio. The FHLBank of Indianapolis is heavily concentrated in mortgage assets (whole loans and MBS) at 27 percent of assets. The FHLBank of Indianapolis remained profitable despite a drop in net income, mainly from credit-related other-than-temporary impairment on private-label MBS. Indianapolis could face further losses from the private-label MBS portfolio, as well as credit and market risk from other mortgage-related assets. Overall condition is adequate.

Condition and Performance

The FHLBank of Indianapolis's financial condition and performance are adequate. The FHLBank of Indianapolis's balance sheet contracted as advances declined 28 percent to $22.4 billion. In absolute terms, whole mortgage loan assets declined, but because of balance sheet contraction, whole loan mortgage balances increased to more than 15 percent of assets, the second highest in the System.

The $5.5 billion MBS portfolio includes $2.5 billion of private-label MBS—approximately 35 percent are rated triple-A, while more than 21 percent are under negative rating action and 44 percent are rated below investment grade. Indianapolis recognized $353 million in non-credit-related impairment on private-label MBS, which lowered its GAAP capital levels. The private-label MBS portfolio continues to drag down both earnings and capital levels.

Despite the drag on earnings, the FHLBank of Indianapolis was profitable in 2009 and was able to increase retained earnings, partially offsetting impairments. Indianapolis recorded net income of $120 million and a net interest spread of 41 basis points, in line with the rest of the System. Higher-yielding mortgage assets provided wider margins in 2009, offsetting the decline in discount note funding advantages dating from late 2008. The FHLBank of Indianapolis had $60 million in credit-related other-than-temporary impairment losses, the primary factor for the decline in net income between 2008 and 2009. The FHLBank of Indianapolis paid a dividend of 2.83 percent.

Regulatory capital levels increased in absolute and percentage terms and are well above regulatory minimums. Excess capital stock—member capital investment in excess of required membership and activity—has risen significantly, reaching almost half of outstanding capital stock. Included in total regulatory capital of $2.8 billion is mandatorily redeemable capital stock of $756 million. Most of this represents capital stock held by former members that were acquired by out-of-district institutions.

Advances continue to decline within the FHLBank of Indianapolis's district, which is experiencing economic weaknesses. As advances decline, the FHLBank of Indianapolis faces the capital management decision of either redeeming capital stock or leveraging it by purchasing investments. The FHLBank of Indianapolis maintains a large liquidity portfolio. The liquidity portfolio also limits earnings and exposes the FHLBank of Indianapolis to unsecured credit risk. Mortgage asset concentration has increased. Higher mortgage asset concentration raises market and credit risk concerns, although the FHLBank of Indianapolis generally has a history of managing mortgage risk adequately.

Risk Management

The FHLBank of Indianapolis has addressed examination concerns related to its risk management oversight structure and process and the adequacy of staffing. In particular, the FHLBank of Indianapolis began the process of separating its risk management function from operating business units, and it has hired an outside consultant to identify gaps in staffing needs and succession planning.

Credit risk is moderate but increasing because of private-label MBS exposure and poor economic conditions in the FHLBank of Indianapolis's district, which has negatively affected member financial condition. The risk in lending to insurance companies is elevated. The FHLBank of Indianapolis has addressed the deteriorating condition of members by taking greater control of collateral and increasing attention to member monitoring.

The FHLBank of Indianapolis's market value of equity rebounded to 108 percent of the book value of equity at year-end 2009 from just 55 percent one year earlier, due in significant part to a marked increase in mortgage loan and security valuations.

The FHLBank of Indianapolis has not incurred losses due to failed internal processes or systems, but staff turnover, particularly in the accounting and information technology areas, increases operational risk. The FHLBank of Indianapolis is addressing deficiencies in operational risk oversight and reporting.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Affordable Housing Program

In 2009, the FHLBank of Indianapolis satisfactorily addressed AHP issues FHFA raised during the 2008 examination. The 2009 examination focused on housing needs identification and prioritization. Indianapolis identified combating the foreclosure crisis and assisting homeowners in refinancing unaffordable mortgages as critical housing issues and set out to address them through the FHLBank of Indianapolis's AHP competitive and set-aside programs. Among other measures, Indianapolis also responded to current conditions by increasing the per-unit AHP subsidy limits and requiring face-to-face homeownership counseling for households receiving a subsidy.

FHLBank of Chicago

Overview

The FHLBank of Chicago is the fourth largest FHLBank with assets of $88.1 billion. The FHLBank of Chicago has been subject to a consent order to cease and desist since October 10, 2007, which prohibits the redemption or repurchase of capital stock at the FHLBank of Chicago absent regulatory approval. In addition, the FHLBank of Chicago remains the only FHLBank that has not converted its capital structure to comply with the Gramm-Leach-Bliley Act of 1999.

In 2009, the FHLBank of Chicago posted a $65 million net loss and recognized $437 million in other-than-temporary impairment on its income statement from its private-label MBS portfolio. Overall, the FHLBank of Chicago demonstrated continued improvement in risk management and cost controls in 2009; however, earnings and the FHLBank of Chicago's franchise present serious challenges in the immediate future. The FHLBank of Chicago's condition remains a supervisory concern.

Condition and Performance

The FHLBank of Chicago's financial condition and performance are weak. Although the FHLBank of Chicago is the fourth largest FHLBank by asset size, it has one of the smallest advance balances—$24.1 billion—and the lowest ratio of advances to assets (27.4 percent). Since the beginning of 2009, the FHLBank of Chicago lost nearly $14 billion of advance balances due to member mergers and diminished member demand. With increased repayments, mortgage balances declined by $8.3 billion to $23.8 billion—27.1 percent of total assets. To maintain operating leverage in the face of declining advances and mortgage balances, the FHLBank of Chicago increased it investments by $15.6 billion to $36.8 billion (41.8 percent of total assets) over the past 12 months. As of December 31, 2009, the par value of Chicago's private-label MBS portfolio was $3.9 billion and its fair value was $2.6 billion. Chicago's private-label MBS portfolio performed poorly during the year as evidenced by credit rating downgrades and other-than-temporary impairment. By the end of the year, 87 percent of its holdings were below investment grade.

In 2009, the FHLBank of Chicago had a $65 million net loss, compared to a $119 million net loss in 2008. The lower loss relative to 2008 was primarily due to a $371 million increase in net interest income partially offset by a $204 million increase in other-than-temporary impairment recognized on its income statement and $22 million of losses on securities. The FHLBank of Chicago benefited from changes in the beginning of 2009 to accounting rules allowing financial institutions to recognize only the credit portion of other-than-temporary impairment losses on their income statement for securities categorized as held-to-maturity or available-for-sale.

The FHLBank of Chicago will continue to face serious challenges to its financial condition in future years. Potential future credit losses on its private-label MBS and funding challenges on its existing mortgage portfolio will continue to pressure earnings. In addition, the decline in advances—its core business—to 27.4 percent of assets suggests the FHLBank of Chicago will have to shrink its asset base considerably in the future. The consent order to cease and desist, which effectively prevents member capital from leaving the FHLBank of Chicago, maintains the short-term financial viability of the FHLBank of Chicago. FHFA does not know when the consent order can be lifted to allow normal operations.

Risk Management

Market risk management practices are weak and the FHLBank of Chicago has not satisfied FHFA's concerns regarding risk management and hedging policies and procedures included in Article III of the cease and desist order. The FHLBank of Chicago's current hedging practices have not adequately protected it from potential market changes. The FHLBank of Chicago's interest rate risk management practices have not mitigated its exposure to a declining interest rate environment. Hedging practices that delay recognizing current period hedging costs into future periods cause concern because of the focus on current performance at the expense of earnings performance in future years.

Changes to the FHLBank of Chicago's business model may hamper future operating performance as the FHLBank of Chicago becomes an advance-focused institution. The FHLBank of Chicago's operating expense ratio is the highest of all FHLBanks and more than double the System average. Management has taken initial steps to reduce operating expenses, including moving to lower-cost office space, but should further reduce operating expenses to reflect costs of a much smaller institution in the future.

Ending the FHLBank of Chicago's on-balance sheet acquired member assets program has also resulted in a significant level of high cost carry-over debt associated with funding this portfolio. Because of the adverse effect of this expensive debt, FHFA permitted the purchase of certain government-guaranteed student loan asset-backed securities to achieve higher spreads. This extraordinary step has allowed the FHLBank of Chicago to realize higher spread income, but further expansion of these investments in precluded because the FHLBank of Chicago has reached the limits of this authorization.

Income generated from the FHLBank of Chicago's core business is inadequate to absorb material losses in the FHLBank of Chicago's private-label MBS portfolio. Total credit losses for the private-label MBS portfolio for 2009 were $437 million. Potential losses in the FHLBank of Chicago's accumulated other comprehensive income were nearly equal to the FHLBank of Chicago's retained earnings and reflect the FHLBank of Chicago's weak financial condition.

The FHLBank of Chicago has submitted a capital plan to FHFA, which is reviewing the plan in light of the Chicago FHLBank's capital composition and its overall financial condition and prospects.

The FHLBank of Chicago's Board appointed a new president in May 2008. The new management team has been more responsive to FHFA requests for information and exhibited a greater willingness to address supervisory concerns; however corporate governance practices remain weak, as evidenced by the FHLBank of Chicago's inability to address to FHFA's satisfaction concerns about its hedging practices. Although management has committed to address weaknesses identified at the most recent examination, compliance with Article III of the cease and desist order has not been adequate. The FHLBank of Chicago's Board needs to work with management to improve the timeliness of corrective actions, address FHFA's concerns about hedging and market risk management, and improve transparency of Board reporting, particularly hedging practices and results. The FHLBank of Chicago's efforts to implement a new system of records have not been timely and oversight of that process has been weak.

We have also noted weaknesses in management succession planning and the development of appropriate policies and procedures.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	High	Weak
Credit Risk	High	Adequate
Operational Risk	High	Adequate
Corporate Governance		Weak

Affordable Housing Program

Because of other significant concerns at this institution, FHFA reviews of AHP and community investment activities have been limited in recent years. The 2009 examination, however, identified a number of deficiencies with respect to analysis, timeliness, and executive oversight in both the competitive and set-aside programs.

The examination also focused on Chicago's housing needs identification and prioritization. Chicago identified increasing homeownership, reducing homelessness, combating the foreclosure crisis, and assisting homeowners in refinancing unaffordable mortgages as critical housing issues and set out to address them through the FHLBank of Chicago's AHP competitive or set-aside programs. Due to Chicago's weak financial performance in 2008, it had no statutory contributions available for 2009, but the Board of Directors approved a voluntary contribution of $3 million. Chicago also applied funds from subsidy recaptures, repayments, and deobligations from previously awarded projects to the AHP funding pool in 2009.

FHLBank of Des Moines

Overview

The FHLBank of Des Moines is the eighth largest FHLBank with assets of $64.7 billion. Its overall condition is adequate. The FHLBank of Des Moines's risk profile and financial performance both improved as the year progressed, though the FHLBank of Des Moines still needs to demonstrate long-term earnings stability. Des Moines has minimal exposure to private-label MBS and did not incur any impairment losses in 2009.

Condition and Performance

The FHLBank of Des Moines's financial condition and performance are adequate. The FHLBank of Des Moines's mortgage loan portfolio, historically the greatest source of market risk and earnings volatility at the FHLBank of Des Moines, declined $3 billion, or 28 percent, primarily due to a $2.1 billion sale of mortgage loans during the second quarter. Advances declined 15 percent during the year, following the overall System trend. The Des Moines advance business remains the most concentrated among insurance companies relative to all other FHLBanks.

Des Moines had the smallest private-label MBS investment portfolio in 2009. As of December 2009, the par value of its holdings was $68 million and the fair value was $61 million. The ratio of fair value to par value (90 percent) is the second highest in the System. Des Moines' private-label MBS holdings did not suffer any other-than-temporary impairment charges in 2009, and its entire private-label MBS portfolio was investment grade as of December 31, 2009.

The FHLBank of Des Moines incurred a loss for the first quarter of 2009 as adverse market movements during the peak of the economic crisis negatively affected the interest-rate spread between the FHLBank of Des Moines' assets and liabilities. Subsequent quarters were stronger, and the FHLBank of Des Moines was able to build retained earnings while paying a dividend greater than the System average.

The market value of FHLBank of Des Moines equity relative to the par value of its capital stock improved in 2009, as did the FHLBank of Des Moines's sensitivity to downward movements in interest rates. The FHLBank of Des Moines lifted its moratorium on the repurchase of capital stock in December.

Risk Management

The FHLBank of Des Moines's level of operational risk is moderate. Most lines of business rely on user-developed applications and other manual processes. The FHLBank of Des Moines is phasing out major user-developed applications, such as those used for financial reporting and management analytics, and implementing better integrated applications into the production environment. The FHLBank of Des Moines is refining technology governance processes and fine-tuning its information technology strategic plan to better align project priorities to business needs. Improving operational risk reporting will allow management to identify risk points for remediation.

Market risk is moderate but improving. The FHLBank of Des Moines has the System's third largest mortgage loan portfolio of $7.7 billion. As previously noted, total mortgage loans declined by $3 billion in 2009, largely due to the sale of $2.1 billion in loans. The FHLBank of Des Moines spent $89 million in 2009 to extinguish $900 million in higher-cost debt and replace it with lower-cost debt. These actions served to substantially reduce exposure to changes in interest rates and stabilize net interest income.

The level of credit risk is moderate but increasing, as evidenced by a rise in member failures and a higher percentage of members on the FHLBank of Des Moines's watch list. All outstanding balances with failed members were paid in full. The FHLBank of Des Moines has a concentration of advances to insurance company members with $14.1 billion outstanding, representing 40 percent of total advances. The quality of credit risk management is improving, although some areas such as collateral management require further enhancement.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Affordable Housing Program

The FHLBank of Des Moines satisfactorily addressed the AHP issues raised during the 2008 examination. The 2009 examination focused on housing needs identification and prioritization. Des Moines identified homelessness, Native American and rural housing development, and aging housing stock rehabilitation as critical housing issues and set out to address them through the FHLBank of Des Moines's AHP competitive or set-aside programs.

FHLBank of Dallas

Overview

The FHLBank of Dallas is the seventh largest FHLBank with assets of $65.1 billion. Its overall condition and performance are adequate. Dallas is advance-centered and consistently operates under a strategy of principally distributing the benefits of membership through advances pricing instead of dividends. The FHLBank of Dallas' overall risk remains low because it holds a large proportion of advances, a small private-label MBS portfolio, and uses a funding strategy that limits market risk exposures.

Condition and Performance

The FHLBank of Dallas's financial condition and performance are adequate. The FHLBank of Dallas' portfolio consists of 73 percent advances, 0.4 percent mortgages, and 26 percent investments. Fluctuations in advances drove the changes in total assets during 2009. Both advances and total assets declined $14 billion during the year. Advance balances fell to $47 billion as of December 2009, a 31 percent decline from record highs of $68 billion in September 2008. The FHLBank of Dallas holds approximately $501 million in private-label MBS, and it recognized a total of $80 million of other-than-temporary impairment in 2009, $4 million of which was credit related. The FHLBank of Dallas' retained earnings increased by 65 percent to $356 million, or 0.55 percent of total assets, as of December 2009. Dallas continued to outperform the System as a whole in return on assets and return on equity measures.

The main challenges for the FHLBank of Dallas continue to be declining advances and high member advance concentration. In addition, the FHLBank of Dallas has a pricing strategy of low advance rates that implies rather low levels of net interest income and dividends, and may give rise to situations where even relatively modest income or expense fluctuations, often solely attributable to accounting factors and not core earnings capacity, can generate a quarter of negative net earnings.

Risk Management

There has been significant turnover in the FHLBank of Dallas' Risk Management Department, particularly in the chief risk officer position. The FHLBank of Dallas has had six chief risk officers since June 2005, the most recent serving from February 2009 to January 2010. The FHLBank of Dallas operated with an interim director of market risk from November 2008 until March 2010 and operated without a director of credit risk from August 2009 to January 2010.

The FHLBank of Dallas faces some interest rate risk because many of the floating-rate MBS it purchases have limits on how much the interest rate can change that would come into play if short-term interest rates increase more than 600 basis points from current levels. The FHLBank of Dallas purchases caps to manage its interest-rate risk associated with such securities. Reports to the Board of Directors, however, do not discuss to examiners' satisfaction the role that cap risk plays in the FHLBank of Dallas' overall interest-rate risk position. In addition, the Board has not established adequate income sensitivity limits to control the effects of cap risk on income volatility. FHFA also noted deficiencies in the FHLBank of Dallas' income simulation model as a tool for measuring income sensitivity across stressed rate scenarios and in cap analysis and valuation processes.

Credit risk in the advance book and private-label MBS portfolio has increased due to continuing deterioration in the national economy, as well as in the FHLBank of Dallas' district. As a result, the FHLBank of Dallas has tightened credit underwriting on advances to some members. The FHLBank of Dallas has a significant concentration of credit to its major advance customer—representing 39 percent of the FHLBank of Dallas' advances as of December 31, 2009. Although the acquirer of this member has decided to retain the customer's membership in the FHLBank of Dallas, the future borrowing relationship with this customer continues to be uncertain after its recent acquisition, and there remains the risk of significant balance sheet shrinkage. The FHLBank of Dallas' private-label MBS portfolio represents less than 1 percent of total assets and credit-related losses have been modest to date.

The FHLBank of Dallas needs to address certain credit risk management weaknesses. In particular, while advances to insurance company members represent less than 1 percent of total advances, the FHLBank of Dallas must be able to ensure it could promptly liquidate securities collateral if an insurance company member were placed into receivership. The securities haircuts implicitly assume such a timely liquidation would occur. The FHLBank of Dallas must also include insurance company members in its credit monitoring process.

The FHLBank of Dallas' tracking and trending of operational errors is too limited, it does not have a fully independent information security officer, and its operational risk assessments are inadequate. In addition, the FHLBank of Dallas has not sufficiently analyzed whether the distance from the FHLBank of Dallas to the disaster recovery site is sufficient or whether it would be feasible to relocate the disaster recovery site to another location.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Affordable Housing Program

The FHLBank of Dallas satisfactorily addressed the issues relating to AHP raised during the 2008 examination. The 2009 examination focused on housing needs identification and prioritization. Dallas identified first-time homebuyer assistance, single-family and rental housing rehabilitation, mixed-income housing, Native American housing development, and foreclosure relief as critical housing issues and set out to address them through the FHLBank of Dallas' AHP competitive or set-aside programs. The Board of Directors approved $2 million in voluntary contributions to provide additional funds for the FHLBank of Dallas' 2009 set-aside programs to meet high demand for AHP funding.

FHLBank of Topeka

Overview

The FHLBank of Topeka is the smallest FHLBank with $42.6 billion in total assets. The FHLBank of Topeka's whole loan mortgage portfolio grew during 2009, becoming a larger share of the balance sheet. The FHLBank of Topeka also holds a greater portion of its assets in investments than the System average. Topeka has modest exposure to private-label MBS. The FHLBank of Topeka's condition and performance are adequate, although it remains exposed to market risk in its mortgage portfolio and credit risk in its unsecured investment portfolio.

Condition and Performance

The FHLBank of Topeka's condition and performance are adequate. The FHLBank of Topeka's balance sheet shrank considerably in 2009 with total assets declining 27 percent year-over-year. The primary driver of the shrinking balance sheet was advances, which declined 38 percent to $22.3 billion. The FHLBank of Topeka's whole loan mortgage portfolio grew to 7.8 percent of total assets, in line with the System average. Total investments increased to 38.3 percent of total assets, the third highest ratio in the System. The FHLBank of Topeka maintains a strong capital position relative to other FHLBanks. Retained earnings of $355 million are 0.83 percent of assets, the highest ratio in the System. The FHLBank of Topeka remains in compliance with regulatory and risk-based capital requirements.

Topeka's private-label MBS portfolio stood at $1.9 billion par value as of year-end 2009, with a fair value relative to par value of 89 cents on the dollar. Topeka's private-label MBS portfolio has incurred minimal other-than-temporary impairment charges of less than 1 percent of beginning year par value. Prime securities represented 83 percent of Topeka's holdings and only 16 percent of Topeka's private-label MBS were below investment grade.

Topeka reported net income of $237 million in 2009, up significantly from $28 million in 2008. Return on equity and return on assets were the highest in the System and well above System averages. Net interest spread was greater than the System average. The FHLBank of Topeka benefited as higher-yielding assets such as mortgages and MBS became larger portions of the balance sheet and funding costs remained low. Net income was also boosted by gains on derivatives, which were primarily the result of accounting effects that reversed losses taken in 2008. Topeka paid dividends at an annualized rate of 2.57 percent.

The primary challenge facing the FHLBank of Topeka going forward is its declining advance portfolio. A relatively large unsecured investment portfolio exposes the FHLBank of Topeka to credit risk and creates earnings volatility due to accounting treatment of securities classified as trading.

Risk Management

The FHLBank of Topeka's risk governance, monitoring, and control functions generally operate independent of one another and do not give the Board and senior management a comprehensive perspective of the FHLBank of Topeka's risk profile. The existing process is generally compliance driven and has not evolved into a framework of risk-return management fully integrated into strategic planning, business processes, performance measurement, and incentive compensation. The FHLBank of Topeka has not designated a chief risk officer. As a result, accountability for risk identification is unclear.

Front-line business decisions continue to exhibit strong risk-adjusted returns, but risk governance and independent risk oversight processes are weak and lack the maturity level appropriate for a systemically important organization.

Ineffective risk oversight is a root cause of AHP and market risk deficiencies. The FHLBank of Topeka's governance and administration of both the competitive application and homeownership set-aside programs remain weak.

Inaccurate spreads and imprecise valuation methodologies reduce confidence in the precision of management's risk metrics. Further, the FHLBank of Topeka's model validation program lacks sufficient scope, analyses, and testing to be effective.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Corporate Governance		Weak

Affordable Housing Program

The 2008 examination identified a number of deficiencies in the administration of the FHLBank of Topeka's AHP. Matters improved during 2009, but remediation efforts continue.

AHP administration continues to lack sufficient analyses, timeliness, and management tools to operate effectively. Since the 2008 examination, the Board of Directors hired a consultant to review all policies, procedures, and practices and make recommendations to achieve consistency, regulatory compliance, and efficiency in the administration of the FHLBank of Topeka's AHP. Staffing additions and replacement of the antiquated AHP management information system are also underway. These improvements are in the early stages, so the FHLBank of Topeka has yet to reap their benefits and fully address program deficiencies.

The 2009 examination also considered housing needs identification and prioritization. Topeka identified elderly, rural, and workforce housing development, down-payment assistance, and aging housing stock rehabilitation as critical housing issues and set out to address them through the FHLBank of Topeka's AHP competitive and set-aside programs. Among other measures, Topeka responded to current conditions by reducing the maximum project award amounts to diversify the competitive program.

FHLBank of San Francisco

Overview

San Francisco is the largest FHLBank, with assets of $192.9 billion as of December 31, 2009. The FHLBank of San Francisco's assets fell by 40 percent in 2009, versus a 25 percent decline for the overall System, due primarily to a sharp reduction in advances to its largest borrowers.

The FHLBank of San Francisco's condition and performance are weak overall, principally because of the potential for losses on its $16.3 billion private-label MBS portfolio. In response, management boosted capital levels in 2009 by limiting capital repurchases and only paying dividends in the third quarter. The FHLBank of San Francisco reported a return on equity of 5.8 percent and a return on assets of 0.21 percent in 2009, which were slightly higher than the overall System averages.

Condition and Performance

The size and credit characteristics of its private-label MBS portfolio are the main reasons for the assessment that the FHLBank of San Francisco's financial condition and performance are weak. At $20.5 billion par value and $14.8 billion fair value, San Francisco had the largest private-label MBS investment portfolio in the System in 2009. Consequently, San Francisco's other-than-temporary impairments for 2009 were the largest in the System—San Francisco had $608 million in credit-related impairments and $4.1 billion total. Relative to par value at the beginning of 2009, San Francisco's credit-related other-than-temporary impairment was below the System-wide average (2 percent for San Francisco and 3 percent System-wide). Three-fourths of San Francisco's private-label MBS were Alt-A, and these holdings accounted for nearly the entire credit other-than-temporary impairment charges in 2009. In addition, 53 percent of its private-label MBS were below investment grade as of December 31, 2009.

A 43 percent drop in advances drove the overall decline in the FHLBank of San Francisco's assets in 2009. This follows a 54 percent increase in advances from June 30, 2007, to September 30, 2008, when the FHLBanks provided liquidity to many members as the financial crisis unfolded. San Francisco's outstanding advances are highly concentrated among its three largest borrowers. Two of the FHLBank of San Francisco's three largest members were purchased by nonmember institutions, and the third has scaled back its mortgage business, which has led to a sharper decline in San Francisco's advances than found in the overall System. Macroeconomic factors also contributed to the decline in advances as at most FHLBanks.

The FHLBank of San Francisco reported net income of $515 million in 2009, which was up from net income of $461 million in 2008 as higher net interest income and a reversal of large hedging losses in 2008 offset sizeable credit-related impairment on private-label MBS.

San Francisco's capital position has improved but remains a supervisory concern. Retained earnings rose to $1.2 billion at December 31, 2009, which is up sharply from only $176 million at December 31, 2008. After implementing the new impairment accounting rules, the FHLBank of San Francisco recorded an increase in retained earnings of $570 million on January 1, 2009. Negative accumulated other comprehensive income, most of which reflects noncredit losses on impaired private-label MBS, was $3.6 billion, however, calling into question the adequacy of retained earnings during 2009.

The continuing deterioration in the private-label MBS portfolio, large credit-related and noncredit other-than-temporary impairment losses on private-label MBS, growing but still inadequate retained earnings, a concentration of advances to large members, weak earnings, and a depressed market value of equity contribute to FHFA's concerns about the FHLBank of San Francisco's credit risk and financial condition and performance. In addition, further declines in the level of advances would reduce the FHLBank of San Francisco's future earnings potential. This, and possibly more credit and noncredit-related other-than-temporary impairment charges on some private-label MBS, would erode the FHLBank of San Francisco's ability to reach adequate retained earnings, particularly if the FHLBank of San Francisco expects to distribute more than nominal quarterly dividends. It will take some time before the FHLBank of San Francisco can achieve its current retained earnings target, and it could be later if greater than anticipated credit other-than-temporary impairment charges arise or if further reductions in the values of private-label MBS cause the retained earnings target to increase more in the months ahead.

Risk Management

Credit risk is high and increasing as the FHLBank of San Francisco's private-label MBS portfolio continues to deteriorate as the FHLBank of San Francisco recorded impairment charges in each quarter of 2009. As of December 31, 2009, the FHLBank of San Francisco's private-label MBS portfolio with an amortized cost of $19.9 billion included noncredit other-than-temporary impairment of $3.6 billion and gross unrealized losses of $5.5 billion. The FHLBank of San Francisco booked credit-related other-than-temporary impairment of $116 million for the fourth quarter of 2009. In addition, FHFA classified $15.9 billion of the FHLBank of San Francisco's private-label MBS portfolio as substandard assets. While advances are fully collateralized, the FHLBank of San Francisco has a high concentration of advances to large members with recently declining advances balances, and it has an increasing number of members on its watch list.

In May 2009, organizational restructuring entailed both enterprise risk management and internal audit under the oversight of one senior vice president. This reporting structure potentially could compromise internal audit's independence, and FHFA concluded the reporting structure should change. The FHLBank of San Francisco separated this reporting structure in the fall of 2009. FHFA also found minutes of the credit committee, a key management committee, were not up-to-date; and a primary collateral model was not validated, as required by FHLBank of San Francisco policy.

Operational risk likely will increase as the FHLBank of San Francisco begins testing and implementing a new recordkeeping system for advances to members to replace an antiquated system over the next 12 to 24 months. In early 2009, stress in the credit markets increased transactional and accounting risk due to a higher than normal volume of member advance-related funding and hedging transactions. Management intends to enhance major business functions and streamline transactional processing and financial reporting through the front/back office replacement project. This project will replace some production systems with an integrated suite of applications designed to streamline processing and better adapt to evolving business needs. Implementation of the front/back office project will take up to two years, with the first phase targeting treasury and mortgage finance scheduled for implementation in the first quarter of 2011.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Strong
Credit Risk	High	Adequate
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Affordable Housing Program

The FHLBank of San Francisco satisfactorily addressed AHP issues raised during the 2008 examination. The 2009 examination focused on housing needs identification and prioritization. San Francisco identified rural and special needs housing development, refinancing and restructuring of unaffordable mortgages, and first-time homebuyer assistance as critical housing issues and set out to address them through the FHLBank of San Francisco's AHP competitive program or set-aside programs. San Francisco also responded to the economic downturn by increasing the maximum project award to offset reduced funding from other sources, such as low-income housing tax credit investors. In addition, San Francisco increased the maximum member award and removed the geographic restrictions for the set-aside programs.

FHLBank of Seattle

Overview

The FHLBank of Seattle is the tenth largest FHLBank with assets of $51.1 billion. The FHLBank of Seattle continues to present serious issues. Losses in the FHLBank of Seattle's private-label MBS portfolio strained capital and risk limits, and member failures during the global financial crisis greatly reduced outstanding advances—the FHLBank of Seattle's core business. FHFA deemed the FHLBank of Seattle undercapitalized for most of 2009, primarily because of inadequate levels of retained earnings and increased risks to capital from private-label MBS. The FHLBank of Seattle met all of its capital requirements at year end, though it failed its risk-based capital requirements for the first and second quarters of 2009. The depreciation in its private-label MBS portfolio and large volumes of stock acquired by nonmember institutions through mergers depress its GAAP capital.

Condition and Performance

The FHLBank of Seattle's financial condition and performance are weak. Advances declined 40 percent in 2009 as loans to Washington Mutual (now JP Morgan Chase), once the FHLBank of Seattle's largest borrower, rolled off after the acquisition of the large thrift by JP Morgan Chase. The FHLBank of Seattle's private-label MBS portfolio continues to generate credit losses and keep the FHLBank of Seattle's market value of equity depressed relative to the par value of capital stock. As of December 31, 2009, the par value of Seattle's private-label MBS portfolio was $4.7 billion, with a ratio of fair value to par value of 64 percent. Seattle had the highest share of option ARM securities (53 percent) in the System and the third highest share of Alt-A private-label MBS (71 percent) in the System. The Alt-A holdings were the sole source of credit other-than-temporary impairment in 2009.

The financial condition and performance of the FHLBank of Seattle have deteriorated because of weaknesses in the value of private-label MBS acquired between the second half of 2005 and the first half of 2008. The FHLBank of Seattle lost $162 million in 2009, driven by $311 million in credit-related other-than-temporary impairment charges. Including the fourth quarter of 2009, the FHLBank of Seattle has reported six consecutive quarterly losses. Additional quarterly losses are possible given the poor quality of the FHLBank of Seattle's private-label MBS portfolio.

The FHLBank of Seattle suspended capital distributions in 2004. Some holders of Seattle capital stock were unable to redeem their shares in 2009, despite having waited the traditional five-year redemption period. The FHLBank of Seattle and its members may face a prolonged period of no dividends, a low and possibly declining level of retained earnings, a low market value of equity, and continued suspension of capital stock redemptions.

The FHLBank of Seattle has not fully addressed all prior examination findings. Despite criticisms of investment practices in prior examinations, the FHLBank of Seattle was slow to recognize the magnitude of credit risk in its private-label MBS portfolio and continued to invest in private-label MBS backed by high-risk, nontraditional mortgage assets through March 2008. Beginning in the fourth quarter of 2008, the FHLBank of Seattle has recognized quarterly other-than-temporary impairment charges resulting in net operating losses, low level of retained earnings, and a significant level of negative accumulated other comprehensive income. Impairment of the private-label MBS portfolio has remained high, resulting in the FHLBank of Seattle periodically failing to meet its risk-based capital requirement and indicating that more credit losses are possible and could be substantial.

As of March 31, 2009, FHFA determined that the FHLBank of Seattle was undercapitalized under the prompt corrective action rule. That rule required the FHLBank of Seattle to submit a capital restoration plan, which it submitted on August 21, 2009. FHFA determined the FHLBank of Seattle's initial plan did not satisfy the requirements of the rule and was deficient in other respects. While the FHLBank satisfied, by a small margin, all capital requirements as of September 30, 2009, FHFA's Acting Director used his discretionary authority to maintain the undercapitalized classification. The FHLBank of Seattle has submitted a revised plan. The FHLBank of Seattle is unable to pay dividends or repurchase stock, actions designed to preserve capital, but which could harm the franchise value of the FHLBank of Seattle.

The FHLBank of Seattle's advance portfolio has declined significantly since it peaked in 2008. The fall in advances has reduced the FHLBank of Seattle's earnings capacity to about $25 million to $30 million per quarter. Even absent additional other-than-temporary impairment credit charges, it may take a long time for the FHLBank of Seattle to build retained earnings to a suitable level. The FHLBank of Seattle's current retained earnings balance of $53 million, which is 8.56 percent of the target level, compares unfavorably to the balance before the crisis of $190 million and the current negative level of accumulated other comprehensive income of $905 million.

Risk Management

The FHLBank of Seattle needs to improve its ability to perform intensive income scenario analyses to better understand the risk profile of the institution and ensure that returns are commensurate with risk taken. As recommended during prior examinations, the FHLBank of Seattle also must complete portfolio segment performance analyses to measure the contribution to profitability of various asset classes, including determining the realized spread on the advance portfolio.

The FHLBank of Seattle deferred investment in technology for an extended period of time, resulting in antiquated information systems. In response to examination findings, the FHLBank of Seattle is in the process of modifying its plans to overhaul its information system to include security and infrastructure needs. As a result, the completion date for the overhaul is extended from 2012 to 2014.

Examination Assessment

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	High	Weak
Operational Risk	Moderate	Adequate
Corporate Governance		Weak

Affordable Housing Program

Administration of the FHLBank of Seattle's AHP has improved. The FHLBank of Seattle extended deployment of the new AHP management information system to 2010, but when operational, it will likely add considerable efficiencies and reporting capabilities to department operations. During the 2009 examination, FHFA directed management's attention to address a persistent program monitoring backlog. That backlog should be eliminated by the middle of 2010 and FHFA will review it at the 2010 examination.

The 2009 examination also considered housing needs identification and prioritization. Seattle identified special needs and Native American housing development, first-time homebuyer assistance, and affordable housing stock preservation as critical housing issues and set out to address them through the FHLBank of Seattle's AHP competitive and set-aside programs. Due to Seattle's weak financial performance in 2008, funds were limited. Losses in 2008 meant that no statutory contributions were available for the 2009 program year, severely reducing opportunities for awarding funds to projects meeting identified housing needs in the districts. Seattle was able to provide limited competitive and set-aside program funding through use of subsidy recaptures, repayments, and deobligations from previously approved subsidy awards.

Office of Finance

The Office of Finance, a joint office of the FHLBanks, is charged with issuing and servicing consolidated obligations on behalf of the FHLBanks. Located in Reston, Virginia, the Office of Finance issues consolidated obligations when requested by one or more FHLBanks. It has no portfolio of its own and faces virtually no credit or market risks. The Office of Finance has approximately 85 employees and assesses the FHLBanks for the cost of its operations.

In 2009, the Office of Finance issued $508 billion of bonds in 5,123 separate transactions. It issued $1.5 trillion of nonovernight discount notes. Overnight discount notes outstanding averaged $23.2 billion. The Office of Finance prepares and distributes the combined financial reports used in the offering and sale of consolidated obligations. Overall, operations and management of the Office of Finance are adequate.

Corporate governance is adequate because of policies and practices developed and implemented by the Board and management. These policies include debt issuance processes, operational risk exception analyses, and disaster recovery and business continuity programs. Turnover in key management positions, including the chief operating and chief human resources officers, created uncertainty, given the scope of the chief operating officer's responsibilities and the then unresolved status of weaknesses in human resources planning. The chief operating officer also oversees a broad range of critical functions, including information technology, capital markets (short-term and term funding), operations (debt services), marketing and corporate communication, research and project management, and human resources. The chief operating officer resigned in August 2009 but agreed to remain until the end of February 2010. A new chief operating officer began in March 2010.

The Office of Finance has a moderate level of operational risk and adequate risk management. Operational risk related to the Office of Finance's accounting, financial, and regulatory reporting responsibilities is moderate and decreasing. Automated processes mitigate some of the risk. Remediation of the weaknesses related to matters identified at the 2008 examination further reduced the level of operational risk. Since the 2008 examination, management established a process and program for standard data definitions; opened a second back-up site in Chicago in June 2009 that provides replication of data within five minutes; and implemented an online information technology security awareness training program mandatory for all staff biannually.

Operational risk management is adequate. In addition to the remediation of the 2008 operational weaknesses, Office of Finance management established a stronger operational risk exception management process. FHFA cited the lack of this process as a weakness in the 2008 examination. Office of Finance management responded by enhancing its processes for risk controls self-assessment, enterprise risk policy, risk event tracking and root cause analysis, and notification criteria. In addition, the Office of Finance purchased enterprise risk management software to support tracking and reporting of these issues. The Office of Finance was installing this software and migrating data during the 2009 examination.

Examination Assessment

	Level of Risk	Quality of Management
Operational Risk	Moderate	Adequate
Corporate Governance		Adequate

Director Compensation

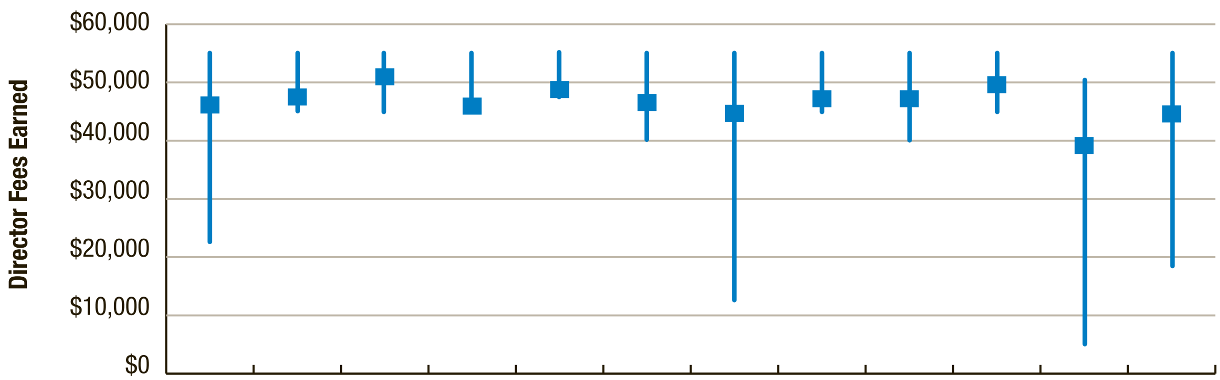
The FHLBanks have Boards of Directors ranging in size from 14 to 19 directors, all of whom are elected by the member institutions. A majority of the Board members are directors or officers of member institutions, while the remainder (not fewer than 40 percent) are independent, meaning they are not officers of an FHLBank nor directors, officers, or employees of any of the FHLBank's member institutions.

From 1999 to 2008, the annual salaries of FHLBank directors were subject to statutory caps. With the enactment of the Housing and Economic Recovery Act (HERA) in July 2008, Congress repealed the statutory caps and authorized the FHLBanks to pay reasonable compensation to their directors.

For 2009, most FHLBanks set the maximum annual compensation at: $60,000 for a chairperson; $55,000 for a vice chairperson; $50,000 to $55,000 for a committee chairperson; and $45,000 for all other directors. At Cincinnati and Indianapolis, the compensation limits differed slightly. At Cincinnati, the maximum annual compensation was $60,000 for any single director. Directors who served on the audit committee were paid an additional $5,000 in annual compensation. At Indianapolis, additional annual committee chair fees ($5,000 or $10,000 per committee chair position, depending on the committee) beyond the maximum amounts may be earned depending on committee chair assignments throughout the year. In practice, Indianapolis directors hold no more than one committee chair assignment.

The total fees paid by the 12 FHLBanks and the Office of Finance to directors during 2009 were $9.5 million, ranging from a low of $569,328 at San Francisco to a high of $903,125 at Indianapolis. The chairperson at 11 of the FHLBanks received $60,000, the maximum

Figure 40 • FHLBank Director Compensation in 2009



	BOS	NYK	PIT	ATL	CIN	IND	CHI	DSM	DAL	TOP	SFR	SEA
Minimum	22,500	45,000	45,000	45,000	45,000	40,625	11,250	45,000	40,000	45,000	5,145	18,739
Maximum	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	50,397	55,000
Average	46,129	47,500	50,964	45,938	48,788	46,563	44,706	47,188	47,187	49,615	39,179	44,587

Source: FHFA

Note: One of the directors of FHLBank San Francisco requested not to be compensated. This graph does not reflect any unpaid fees.

amount set by most FHLBanks. The chairperson at Indianapolis received $65,000 ($60,000 for being the Board chair and $5,000 for being the chair of the executive/governance committee) and the chairperson at the Office of Finance received $58,000. A director other than the chairperson received on average between $39,179 and $50,964 in compensation during 2009. (See Figure 40.)

In Figure 40, variation among directors appears to be high at Boston, Chicago, San Francisco, and Seattle. At these four FHLBanks, some directors served on the Board for less than a year, and, at Seattle, one director refused to accept the 2009 increase in director fees (the minimum amount represents the capped fees for other directors in 2008).

Accounting

In 2009, as expected losses on mortgage assets mounted, accounting standards that companies applied to measure these losses gained increased attention. Financial institutions were under pressure to provide a transparent view of asset values in their financial statements. Yet, many of these institutions argued that certain accounting standards, particularly those governing fair value measurements and impairment of investment securities, were unduly punitive. Some in the banking industry expressed the view that accounting standards required them to recognize losses in excess of what would likely ever be realized as markets for some financial instruments became inactive.

In response to the issue, the Financial Accounting Standards Board debated, took comment, and ultimately modified relevant accounting guidance.

Although the debate over fair-value measurement got the most public attention, the most significant story in 2009 regarding fair value was not what changed in accounting guidance, but what *did not* change. FASB considered changing core concepts around fair-value measurements in inactive markets, but the board ultimately preserved the precepts that (1) fair values should be based on market participant inputs and (2) the objective of fair-value measurements is to identify an exit price—meaning an estimate of what an asset could be *sold for* on the measurement date. The eventual changes in fair-value measurement guidance did not have a significant impact on the entities FHFA regulates, because their processes for determining fair value were relatively robust and did not require major changes.

Two accounting changes did have significant impacts on FHFA's regulated entities: other-than-temporary impairments of debt securities (impairments) and consolidation accounting.

Other-Than-Temporary Impairments

On April 9, 2009, FASB issued updated accounting guidance to improve presentation of and disclosures around impairments. The new guidance made several changes to impairment accounting. It changed the threshold for recognizing impairments to one that compares expected future cash flows to those expected at purchase. The previous model considered events that had occurred that made future losses probable.

The guidance also made it easier for an entity to assert its intent regarding impaired instruments and changed how impairments are presented in the income statement by allowing the preparer to divide impairments between net income and other comprehensive income[1] based on its best estimate of the credit loss it actually expects to incur. The previous guidance required a company to write the instrument down to its fair value through net income. The new guidance requires only the present value of expected cash flow shortfalls (credit loss) be written off through net income and the balance (the fair-value loss minus the credit loss) be recorded in other comprehensive income. (See Figure 41.) This change had a significant impact on the entities FHFA regulates, increasing net income (or reducing net losses) by billions of dollars in 2009.

1 Other comprehensive income is not generally reported on the face of the income statement, although such reporting is permitted. Net income is the more widely recognized measure of earnings.

Figure 41 • Illustration of Effects Before and After Impairment Guidance Changes

	Before 2009 Impairment Guidance Change	After 2009 Impairment Guidance Change
Total other-than-temporary impairment losses	(100)	(100)
Less portion of loss recognized in other comprehensive income	N/A	75
Net other-than-temporary impairment recognized in net income	(100)	(25)

While the new guidance reduced the loss recognized in net income, the full write-down to fair value is still reflected on the balance sheet and in GAAP equity. The difference between the write-down taken through net income and the full fair value decline travels through other comprehensive income and is ultimately recognized on the balance sheet in a special equity account known as accumulated other comprehensive income, which is generally excluded from regulatory capital measures. Accumulated losses reflected in this category, while part of the GAAP measure of shareholders' equity, generally do not affect regulatory capital.

The new guidance also permitted entities to effectively recover the portion of prior impairment losses not identified as credit-related through a transition provision that reclassified noncredit portion of prior other-than-temporary impairment from retained earnings to accumulated other comprehensive income. This change increased several of the FHLBanks' regulatory capital ratios.

The impairment guidance also significantly expanded disclosures. Companies must now disclose the methodology and key assumptions they apply to measure the credit portion of impairments. A period-to-period reconciliation or "roll forward" of credit impairment also must be disclosed to make clear the cumulative credit impairment recognized on impaired assets.

FHFA participated in FASB's formal comment process and discussed the issues with other regulators, FASB staff, and large accounting firms. The FHLBanks adopted the guidance in the first quarter of 2009. Fannie Mae and Freddie Mac adopted it in the second quarter.

Consolidation Accounting

FASB also issued long-awaited amendments to accounting standards relating to transfers of financial assets and consolidation of variable interest entities.[2] This change was the culmination of years of work, but the economic crisis hastened its passage. The existing rules were blamed for allowing financial institutions to hide risk using off-balance sheet vehicles. The new guidance, finalized in June 2009 and effective in 2010, requires many previously off-balance sheet securitization structures to be recognized on the balance sheet.

The amendments removed from GAAP the concept of a qualifying special purpose entity and related scope exception from the consolidation provisions applicable to variable interest entities. FASB based the consolidation decision on whether a controlling interest is held in a passive entity. The literature also changed from a quantitative to a qualitative assessment and required ongoing reassessments to determine if companies must consolidate variable interest entities. This differs greatly from previous rules, which only required companies to make a consolidation determination for variable interest entities when specific events occurred. The amendments also included many new disclosure requirements in the interest of transparency for investors.

[2] Variable interest entity is an accounting term. For FHFA's regulated entities, the most common are the various securitization structures Fannie Mae and Freddie Mac issue and purchase.

FHFA participated in FASB's review process for the amendments throughout the year and worked with the standards board, the SEC, the Enterprises, and their external auditors to find practical solutions to complex accounting issues arising from the new guidance.

The combined effect of these standards is that Fannie Mae and Freddie Mac must consolidate most of the MBS they guarantee. The loans contained in consolidated MBS will be reflected directly as assets on the balance sheets of Fannie Mae and Freddie Mac, and bond holders' MBS interests will be reflected as secured borrowings. Before FASB set the new amendments, Fannie Mae and Freddie Mac accounted for most of their guarantee businesses off-balance sheet, under the qualifying special purpose entity exemption. Unlike the Enterprises, the FHLBanks do not participate in securitization and guarantee programs.

Adopting this complex standard has had a major impact on the Enterprises' accounting models, disclosures, and operations. It significantly increases the size of the balance sheet adding more than $4 trillion of assets and liabilities between the two Enterprises. The guidance changed the basis for reporting certain assets and liabilities, which reduced shareholders' equity by approximately $12 billion for Freddie Mac but increased it by approximately $2 billion to $4 billion for Fannie Mae, effective January 1, 2010. These transition adjustments could affect first quarter 2010 incremental draws on the preferred stock agreements with Treasury.

The Enterprises' income statements will also change significantly. All interest from guaranteed loans will be recognized as the Enterprises' interest income, and the interest paid to MBS investors will be recognized as their interest expense. Guarantee fees (formerly reported separately) will be largely absorbed into the net interest margin.

Looking Ahead

In 2009, FASB made significant changes to the accounting models employed by the entities FHFA regulates, and 2010 could bring still more changes. FASB and the International Accounting Standards Board are working toward a single set of global accounting standards, though the two boards have reached tentative conclusions in their respective deliberations that differ. The current focus of both boards is on accounting for financial instruments, which will likely have major consequences for FHFA's regulated entities and lead to further changes.

Under FASB's tentative decisions, most financial assets would be carried at fair value on the balance sheet with changes in fair value each period being recorded either in earnings or in other comprehensive income. The international standards board permits historic cost accounting for some instruments. A company's balance sheet and income statement could differ substantially under these two approaches. FHFA will continue to monitor these issues as the two standard setting boards reconcile their differences.

Supervisory Actions

Conservatorship

The statutory role of FHFA as conservator requires FHFA to take actions to preserve and conserve the assets of the Enterprises and restore them to safety and soundness. To fulfill the statutory mandate of conservator, FHFA must follow governance and risk management practices associated with private-sector disciplines.

FHFA, as conservator, has allowed the companies to continue to operate as ongoing business concerns within certain well-controlled parameters. FHFA has also directed the companies to respond to the dynamic needs of the distressed housing market. As conservator, FHFA recognizes that using existing core competencies, infrastructure, and mortgage market expertise of the two Enterprises will help to stabilize the housing market, as well as provide time for policy makers to decide how to remodel housing finance in the United States.

As conservator, FHFA focused in 2009—and continues to focus in 2010—on restoring confidence in the Enterprises, enhancing their capacity to fulfill their missions, mitigating losses, and addressing systemic risks that contributed directly to instability in the housing market.

Treasury and Federal Reserve Support

During 2009, Treasury and the Federal Reserve provided unprecedented support to the mortgage markets. Specifically, Treasury completed its mortgage security purchase program. The liquidity facility was not used, and Treasury allowed it to expire at year end. The Federal Reserve committed to purchase up to $1.25 trillion MBS by March 31, 2010, and through January 6, 2010, the Federal Reserve had purchased $1.02 trillion of Enterprise MBS and $125.5 billion in Enterprise debt. As anticipated, both purchase facilities have been allowed to gradually wind down.

The Preferred Stock Purchase Agreements between Treasury and the Enterprises, which commenced with the establishment of the conservatorships in September 2008, were designed to ensure each Enterprise maintained positive net worth. The critical role of the agreements was reaffirmed twice in 2009 with modifications to the original agreement. In February 2009, the Administration again emphasized the importance of the agreements in maintaining market confidence in the Enterprises by announcing an increase in the financial commitment to each company from $100 billion to $200 billion.

On December 24, 2009, Treasury reaffirmed this commitment and amended the agreements to cover the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010, 2011, and 2012, less any net worth surplus remaining as of December 31, 2012. This latest change was designed to quell any market uncertainty and ensure the Enterprises remain a stable source of funds for new home purchases and refinancing of existing mortgages. This amendment also assured capital market investors that Enterprise securities are sound investments.

Through December 31, 2009, losses at the two Enterprises required them to draw $125.9 billion (combined) from the U.S. Treasury under the preferred stock facility. This direct financial support allowed the Enterprises to sustain the mortgage market and help restore stability to the housing market.

Conservatorship Governance

FHFA, as conservator, has consistently made clear the Enterprises will continue to be responsible for normal business activities and day-to-day operations, seeking conservator approval and guidance as needed. In 2009, both companies focused on conserving assets, minimizing corporate losses, meeting their mission, remediating identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed.

During 2009, FHFA, as conservator, directed the Enterprises at times to align their business practices in support of the housing market. At other times, FHFA allowed the companies to focus on individual practices providing competitive advantages to each.

Despite adverse market conditions in 2009, the Enterprises were able to provide both stability and liquidity to the housing market. Both FHFA, as conservator, and the Enterprises undertook a number of activities in 2009 related to the conservatorship.

FHFA's Actions as Conservator

Boards of Directors—FHFA, as conservator, regularly attends Board and committee meetings at both Enterprises. During 2009, each Board and its committees met regularly, overseeing business decisions and corporate governance matters and consulting with FHFA when appropriate.

Executive Compensation and Management—As conservator, FHFA believes it is critical to protect taxpayer interests in the Enterprises by ensuring that each company has experienced, qualified people managing day-to-day business operations. The directors and senior executives tied to the financial collapse at each Enterprise are no longer with the companies. Senior executives who remain, as well as those who were recently hired, are essential to the Enterprises being able to fulfill the important goals of the conservatorships. It is critical to retain existing staff and attract new executive management to fill vacancies.

FHFA worked closely with each Enterprise's Board to develop a set of compensation policies. All executive management compensation decisions were subject to consultation with Treasury through Treasury's Special Master of Troubled Assets Relief Program (TARP) Executive Compensation. FHFA's overall objective was to structure the Enterprise compensation program as Treasury had done for banks that received funds under TARP, but FHFA also considered additional complexities unique to Freddie Mac and Fannie Mae.

FHFA also implemented a "claw back" provision that was reviewed by the Special Master, and its provisions go further than the claw back used for TARP institutions. Claw backs allow FHFA to reclaim previously given monies or benefits if it is later determined that management fell short through either adverse action or inaction. FHFA prevented excessive perquisites by eliminating tax gross-ups (money provided to an employee for taxes they owe on relocation expenses), reducing relocation expenses, and amending retirement packages for select individuals.

Conservatorship Directives—Under the Housing and Economic Recovery Act of 2008 (HERA), while in conservatorship, some Enterprise actions or decisions require either explicit approval or no objection from FHFA. FHFA communicated on a number of decisions during 2009 including establishing corporate goals that tie directly to compensation decisions, reappointing Directors, banning new products not related to loss mitigation, providing approvals for changes in accounting policy, authorizing sales and disposition of assets, guiding settlement of contractual obligations and various legal decisions, appointing external auditors, and overseeing charitable activities. Under the Preferred Stock Purchase Agreement, some decisions require Treasury approval, and FHFA has worked with Treasury and the Enterprises as needed.

Enterprise Actions in Conservatorship

Making Home Affordable—As agents of the Treasury, Freddie Mac and Fannie Mae are serving the principle implementation role of the Administration's foreclosure prevention initiative. MHA includes a refinance component and a loan modification program, both designed to reduce preventable foreclosures. Both Enterprises devoted significant resources to MHA programs, Fannie Mae as program administrator, and Freddie Mac in the role of compliance agent.

Support for the Market—The Enterprises provided more than $1.372 trillion combined in liquidity to keep the single- and multifamily mortgage markets operating in 2009. The Enterprises' share in financing or guaranteeing new single-family mortgage production was 76 percent in 2009. During 2009, Freddie Mac and Fannie Mae together issued approximately $1 trillion in new MBS. In addition, Fannie Mae and Freddie Mac provided funding and liquidity for single-family and multifamily counterparties during periods when traditional funding sources were scarce.

Mortgage Interest Rate Stability—The Enterprises' continued mortgage securitization activity in the market, combined with substantial Federal Reserve and Treasury MBS purchases, maintained single-family mortgage rates at historic lows throughout 2009 and kept multifamily rates stable to provide financing for rental housing.

Loss Mitigation—In addition to MHA, the Enterprises focused significant resources in 2009 on loss mitigation activities, working with servicers to provide borrowers foreclosure prevention options, such as payment reductions, payment forbearance, and foreclosure moratoria. Both Enterprises continued to offer alternatives including rental options, deeds in lieu of foreclosure and short sales.

Outreach Efforts—Both Enterprises aggressively implemented a number of community outreach efforts, including borrower assistance centers, call centers, website updates, and grants to nonprofit organizations with proven mortgage modification programs and effective counseling services. The Enterprises also educated servicers on the initiatives and helped many build capacity to support the volume of requests from distressed borrowers.

Housing Finance Agency Support—Since the financial crisis of 2008, state and local housing finance agencies (HFAs) had largely been unable to raise new funds, and faced high costs of liquidity for their variable rate debt. During 2009, Treasury, FHFA, and the Enterprises worked to develop a new initiative aimed at supporting HFAs. The initiative has two parts—a $15 billion new issue bond program to support new HFA mortgage lending and an $8.2 billion temporary credit and liquidity program to lower the cost of outstanding HFA variable rate debt. The Enterprises executed 134 separate transactions with 93 state and local HFAs in December.

Remediating Known Weaknesses—FHFA is closely monitoring actions the Enterprises' Boards and management are taking to correct weaknesses cited in the 2008 and 2009 annual *Report(s) of Examination* of Fannie Mae and Freddie Mac. Progress continues, but the Enterprises still need to make additional efforts to remediate all the identified weaknesses.

Other Supervisory Actions

Federal Home Loan Bank of Chicago—The Federal Home Loan Bank of Chicago continues to operate under a consent cease and desist order, originally entered into in October 2007 and amended in July 2008, which prohibits the FHLBank of Chicago from redeeming or repurchasing capital stock without the agency's consent, and requires the development of satisfactory capital and risk-management plans.

Federal Home Loan Bank of Seattle—The FHLBank of Seattle failed to meet its risk-based capital requirement in each of the first two quarters of 2009, resulting in a capital classification of undercapitalized. It met all capital requirements in the third quarter. However, in November 2009, FHFA exercised its discretion to reaffirm the Federal Home Loan Bank of Seattle's classification as undercapitalized under the prompt corrective action provisions of the Federal Housing Enterprises Financial Safety and Soundness Act on account of risks of further deterioration in the FHLBank of Seattle's portfolio of private-label MBS and the absence of acceptable plans for addressing those risks. That supervisory action continued statutory restrictions on the FHLBank of Seattle's ability to redeem or repurchase capital stock and a mandate to submit a capital restoration plan for the agency's review and approval.

Compensation Matters—During 2009, in carrying out its oversight responsibilities as conservator for the Enterprises, FHFA reviewed and rendered decisions on numerous compensation-related proposed actions. These included new compensation structures and amounts for all executive officers at both Enterprises, offers for 7 new officers, 9 promotions, 7 termination terms for 13 deputy officers, executive scorecards for incentive pay, and all compensation disclosures.

The new structures lowered executive officer pay by an average of 40 percent from preconservatorship levels, sharply reduced executive perquisites, and included recapture provisions in certain circumstances. They were designed in consultation with the Special Master of TARP Executive Compensation to use the same general structure as pay packages approved for executives at financial institutions that received exceptional TARP assistance.

Also during 2009, the agency issued an advisory bulletin to the Federal Home Loan Banks on principles for executive compensation and reviewed more than 35 requests from the FHLBanks regarding compensation actions involving new hires, termination benefits, incentive compensation plans, and other nonsalary compensation. The agency also reviewed 2009 performance year (annual and long-term) compensation recommendations and 2010 salary adjustments for executive officers at the 12 FHLBanks. Two of the FHLBanks (Boston and Chicago) did not pay any performance-based bonuses to their top executive officers for the 2009 performance year.

Foreclosure Prevention

FHFA encouraged the Enterprises to lead foreclosure prevention efforts to stabilize housing and financial markets. Both Enterprises are devoting significant resources to programs aimed at reducing default rates, preventing avoidable foreclosures, and when necessary, allowing graceful exits from the home.

Throughout 2009, FHFA helped develop and implement the Administration's program designed to help at-risk homeowners avoid foreclosure. Under an MHA program agreement with Treasury, the Enterprises play key roles as financial agents in carrying out the Administration's objectives. Fannie Mae has assumed the role of MHA program administrator and Freddie Mac serves as MHA compliance agent.

Fannie Mae as Program Administrator

Under the MHA Program, Fannie Mae assumed the responsibility of program administrator, overseeing the implementation and execution of new programs. Fannie Mae's role includes designing and implementing standardized MHA programs, serving as record keeper and pipeline manager and coordinating with the paying agent for disbursement of Treasury incentives. Fannie Mae provided guidance to borrowers and servicers, developed websites, and trained servicers. It also launched outreach events in some of the hardest-hit cities across America, maintained call centers, and issued reports to inform the public about the program. In 2009, Fannie Mae:

- Issued 10 MHA supplemental directives, including guidelines for HAMP, home price decline incentives, second-lien modifications, data collection and reporting, borrower notices, and foreclosure alternatives (including short sales and deeds in lieu of foreclosure).
- Registered and executed servicer participation agreements with more than 100 servicers of non-Enterprise loans under HAMP (portfolio loans and loans in private-label MBS).
- Led a large-scale campaign with the top seven servicers to convert HAMP trial period plans to permanent modifications.
- Organized or attended 155 borrower outreach events, including 20 Treasury events that attracted more than 22,000 homeowners.

Freddie Mac as Compliance Agent

Under its agreement with Treasury, Freddie Mac is responsible for monitoring the compliance of all participating mortgage servicers of non-Enterprise loans with the servicer participation agreement and MHA guidelines.

Through year-end 2009, Freddie Mac's MHA-Compliance department conducted on-site compliance reviews at 11 of the nation's largest servicers. MHA-Compliance reviews whether servicers are properly applying Treasury's HAMP guidelines and the related net present value model and audits incentive payments made to borrowers, servicers, and investors for program compliance.

Review results help servicers improve their processes and take corrective actions where necessary. MHA-Compliance directly communicates review results to Treasury, which can then make adjustments to program policy to make HAMP more effective and efficient. In serious cases with noncompliant servicers, MHA-Compliance consults with Treasury on appropriate courses of action.

As more trial period plans are converted to permanent modifications, MHA-Compliance has increasingly focused on whether loan files are adequately documented and the borrower and modification terms meet HAMP guidelines. Loan file reviews include "second looks" at declined modification requests to ensure borrowers were appropriately reviewed for HAMP and the decline decision was accurate.

Home Affordable Modifications

HAMP offers modifications to borrowers who demonstrate hardship, are able to pay the mortgage at modified terms, and are willing to keep the property. Borrowers must successfully make modified payments for a trial period of at least three months before a permanent modification is granted.

Borrowers who demonstrate a reasonable chance of successfully performing on a loan with modified terms are given the opportunity to keep their homes. To create a more affordable payment, a modification may include a combination of capitalization, interest rate reduction, term extension, principal forbearance, or principal forgiveness.

The number of permanent modifications lagged behind expectations in 2009, with only about 10 percent of trial plans being converted to permanent modifications. As a result, Treasury adjusted HAMP guidelines and extended the timeframe for borrowers to document their eligibility and financial situation for permanent modifications. The trial period plan-to-permanent modification conversion rate is expected to improve significantly in 2010—particularly since the program will now require verified rather than stated income to enter into a trial period plan.

Both Enterprises require all eligible borrowers to be considered for HAMP before other modifications or foreclosure alternatives. For delinquent borrowers who are ineligible for HAMP, the Enterprises consider other modification options or provide the borrowers with a foreclosure alternative (such as a short sale or deed in lieu of foreclosure) if sustaining homeownership proves impossible.

Home Affordable Refinances

Declining home values made it impossible for many families to refinance to more affordable payments. HARP allows homeowners whose home values have fallen to take advantage of historically low interest rates by refinancing their mortgages. HARP is available to eligible borrowers whose mortgages are owned by Freddie Mac or Fannie Mae. Borrowers may enter into a refinance through any approved lender.

Homeowners may refinance as much as 125 percent of their home's current value. In some cases, HARP refinances are complicated by the need to transfer mortgage insurance coverage from the paid-off loan to the new loan. As with all refinance activity, the volume of HARP refinance loans is affected by the interest rate environment.

Of the 2.5 million borrowers who refinanced their mortgages with Fannie Mae financing in 2009, 329,000 refinanced through Fannie Mae's streamlined process, including 104,000 Fannie Mae borrowers who refinanced through HARP.

Of the 1.7 million borrowers who refinanced their mortgages with Freddie Mac financing in 2009, 169,000 refinanced through Freddie Mac's streamlined process, including 86,000 Freddie Mac borrowers who refinanced through HARP.

According to the U.S. Treasury, borrowers who refinanced saved an estimated $150 per month on average and more than $6.8 billion total over the first year.

Other Actions Taken by the Enterprises

When a borrower with a Fannie Mae- or Freddie Mac-owned loan does not qualify for HAMP, the Enterprises may other offer work-out options through servicers. In 2009, Fannie Mae provided more than 75,000 borrowers with alternative modification plans and helped another 164,000 borrowers keep their homes through repayment plans, payment forbearance, or other means. Freddie Mac provided more than 45,000 borrowers with alternative modification options and another 55,000 with other ways to save their homes.

In 2009, Fannie Mae provided alternatives to about 39,000 borrowers whose economic hardships precluded them from staying in their homes. Freddie Mac provided alternatives to 19,000 borrowers. These borrowers took advantage of various options, including rental strategies, deeds in lieu of foreclosure, and preforeclosure or short sales.

Public Transparency

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

Housing Mission and Goals

Enterprise Affordable Housing Goals

Under HERA, the housing goals established by the Department of Housing and Urban Development (HUD) for 2008 carried over to 2009, subject to modification by FHFA after reviewing market conditions and the financial conditions of the Enterprises. FHFA initiated that review in the fourth quarter of 2008, and determined that, with one exception, the housing goals and subgoals established by HUD were not feasible for 2009. In March 2009, FHFA announced it had determined all three home purchase subgoals established by HUD and two of the overall goals for 2008 were infeasible. By proposed rule published May 1, 2009, and final rule published August 10, 2009, FHFA adjusted the housing goals and most subgoals downward from the levels established by HUD for the years 2005 through 2008 and gave goals credit for qualifying loan modifications under HAMP. (See Figure 42.)

For 2009, FHFA determined that both Enterprises missed the underserved areas goal and their special affordable multifamily subgoals. Freddie Mac was likely to also miss its special affordable goal and its undeserved areas home purchase subgoal. In December 2009, FHFA wrote to the Enterprises requesting detailed reasons for their likely failures to meet these goals and subgoals, a determination process that continued into 2010. In January, 2010 the Enterprises provided a detailed explanation regarding the missed goals.

In 2009, FHFA began developing a proposed rule

Figure 42 • Enterprises' Housing Goals and Performance for 2008–2009

	2008 Goal/Subgoal	2008 Performance		2009 Goal/Subgoal	2009 Performance[1]	
Category		Fannie Mae	Freddie Mac		Fannie Mae	Freddie Mac
Overall Goals[2]						
Low-mod income	56%	53.7%	51.5%	43%	47.7%	44.7%
Underserved areas	39%	39.4%	37.7%	32%	28.8%	26.7%
Special affordable	27%	26.4%	23.1%	18%	20.8%	17.7%
Home Purchase Subgoals[3]						
Low-mod income	47%	38.8%	39.3%	40%	51.8%	48.4%
Underserved areas	34%	30.4%	30.2%	30%	31.1%	27.9%
Special affordable	18%	13.6%	15.1%	14%	23.2%	20.6%
Special Affordable Multifamily Subgoals ($b.)						
Fannie Mae	$5.49	$13.31	NA	$6.56	$6.47	NA
Freddie Mac	$3.92	NA	$7.49	$4.60	NA	$3.69

1 Performance as reported by the Enterprises official 2009 performance will be determined by FHFA after review of Enterprise loan-level data. Goals for 2009 included credit for qualifying loan modifications.

2 Minimum percentage of all dwelling units financed by each Enterprise.

3 Minimum percentage of all home purchase mortgages on owner-occupied properties financed by each Enterprise in all metropolitan statistical areas.

on substantial revisions to the housing goals that go into effect in 2010. HERA requires four single-family goals and one multifamily special affordable goal for 2010 and beyond. For single-family purchase money mortgages, there will be goals based on three types of families—those who are classified as low- or very low-income and those residing in low-income areas. The statute also requires a low-income, single-family refinance goal, as well as multifamily special affordable goals for low-income families and subgoals for very low-income families.

HERA also requires the Enterprises to lead the market in developing loan products and flexible underwriting guidelines for the secondary market for mortgages for low-, very low-, and moderate-income families for manufactured housing, affordable housing preservation, and rural housing (this is part of the Enterprises' "duty to serve").

FHFA published an Advance Notice of Proposed Rulemaking on August 4, 2009, and requested public comment on standards for evaluating the Enterprises' duty to serve these markets. FHFA received and evaluated more than 100 comments and began preparations for publishing a proposed rule.

FHLBanks Affordable Housing Goals

Beginning in 2009, HERA required FHFA to establish interim housing goals for the FHLBanks based on their mortgage purchases. The purpose of the housing goals is to ensure FHLBanks are serving very low and low-income families and families residing in low-income areas. FHLBanks currently purchase single-family whole loans through their acquired mortgage asset programs.

To develop recommendations for the proposed interim target housing goals, FHFA analyzed the FHLBanks' mortgage purchase activity. FHFA intends to propose interim target housing goals that will be consistent with the single-family housing goals for the Enterprises, according to the statutory intent of HERA, while taking into account unique characteristics of the FHLBanks. A proposed rule would include a volume threshold to ensure an FHLBank has significant mortgage purchase volume before the FHLBank is subject to interim target housing goals.

FHLBanks' Targeted Affordable Housing and Community Investment Activities

The FHLBanks administer three targeted housing and community investment programs: AHP, the Community Investment Program (CIP), and the Community Investment Cash Advances (CICA) program. Using these, FHLBanks finance targeted community investment projects and expand homeownership and rental opportunities for low- or moderate-income households (80 percent of area median income or below) and middle-income households (115 percent of area median income).

AHP Regulatory Initiatives—In 2009, FHFA approved and implemented initiatives to enhance regulation of AHP, CIP, and CICA programs. The initiatives included:

FHLBank Mortgage Refinancing Authority—HERA amended the Federal Home Loan Bank Act, adding a provision requiring FHFA to allow FHLBanks to use subsidy funds from their AHP homeownership set-aside programs to refinance low- and moderate-income households' first mortgage loans on primary residences until July 30, 2010. In August 2009, FHFA published an interim final rule that allows an FHLBank to use up to two-thirds of its homeownership set-aside allocation (up to 35 percent of its statutory contribution) to assist households that qualify for refinancing under eligible federal, state or local government targeted refinancing programs when additional subsidy is needed to bring down the household's mortgage debt-to-income ratio to an affordable level or to bring down the mortgage principal to meet a maximum loan-to-value ratio.

FHLBank Affordable Housing Program— FHFA's August 2009 interim final rule also included amendments to the affordable housing program and the competitive application program to enhance AHP's capacity to respond to changes in the wake of the current economic and housing crisis. The interim final rule amended the method an FHLBank may use to account for accelerating future year AHP contributions for use in the current year. The interim final rule also gave FHLBanks more opportunities to use AHP subsidies to assist in the purchase and rehabilitation of foreclosed properties as well as to establish other priorities for the awarding of AHP subsidies.

AHP, CIP, and CICA Program Data Integrity Review—In 2009, FHFA held on-site data integrity reviews at all 12 FHLBanks to validate the 2008 AHP, CIP, and CICA program data submissions to FHFA and clarify reporting requirements in the agency's data reporting manual. The reviews also verified whether the new AHP, CIP, and CICA databases, completed in 2008, accurately captured and reported program data.

Affordable Housing Program

The FHLBank Act requires each of the 12 FHLBanks to establish an AHP to be used for the construction, purchase, or rehabilitation of housing addressing a wide range of needs. AHP funds help subsidize the cost of owner-occupied housing targeted to households with incomes at or below 80 percent of area median income, and rental housing that reserves at least 20 percent of the units for households with incomes at or below 50 percent of area median income. The subsidy may be in the form of a grant or a subsidized interest rate on an advance from an FHLBank to a member.

The FHLBank Act requires each FHLBank to contribute annually at least 10 percent of its previous year's net earnings to AHP, with a minimum annual combined contribution by the 12 FHLBanks of $100 million. From 1990 to 2009, the FHLBanks contributed more than $3.3 billion to AHP. (See Figure 43.) In 2010, FHFA expects approximately $252 million in AHP subsidies to be available nationwide, compared to more than $188 million in 2009, an increase of 34 percent.

In 2009, each FHLBank administered two AHPs, a competitive application program and at least one homeownership set-aside program. An FHLBank may set aside annually up to the greater of $4.5 million or 35 percent of the FHLBank's annual statutory AHP contribution to assist low- or moderate-income households in purchasing or rehabilitating homes, provided that at least one-third of the FHLBank's aggregate annual set-aside contribution is allocated to first-time homebuyers. Homeownership set-aside programs are voluntary. In 2009, four FHLBanks also offered refinancing set-aside programs.

Figure 43 • AHP Aggregate Statutory Contributions by Year, 1990 – 2010

AHP Statutory Contributions By Year (amounts in thousands of dollars)	
1990	78,783
1991	59,515
1992	50,000
1993	50,019
1994	75,022
1995	100,000
1996	104,103
1997	119,741
1998	136,217
1999	169,190
2000	199,446
2001	246,298
2002	219,125
2003	167,385
2004	217,498
2005	226,752
2006	282,989
2007	293,830
2008	319,091
2009	188,363
2010	252,507

AHP Competitive Application Program

Under the competitive application program, an FHLBank's member financial institutions submit applications to the FHLBank on behalf of one or more sponsors of eligible housing projects. Projects must meet certain statutory and regulatory requirements to be eligible for AHP funding under this program.

AHP Homeownership Set-Aside Program

An FHLBank may establish one or more AHP homeownership set-aside programs. Members obtain the set-aside funds from the FHLBank and use them for grants of up to $15,000 to eligible households. In 2009, a majority of the set-aside disbursements were used for down payment and closing cost assistance.

Community Investment Program and Community Investment Cash Advances Programs

CIP and other CICA programs offer funding, including low-cost long-term funding, for members and housing associates to use for financing community investment projects for targeted beneficiaries or targeted income levels. Members may use CICA funds for loan originations, loan participations, revolving loan funds, and purchases of low-income housing tax credits and mortgage securities.

In 2009, the FHLBanks provided more than $3 billion in CIP and CICA funds for community investment and mixed-use projects and more than $1 billion in CIP advances for housing. To help during the mortgage crisis, some FHLBanks made special CIP advances available to members to assist households facing mortgage delinquency or foreclosure to restructure or refinance their mortgages.

FHFA Outreach

In 2009, FHFA emphasized regular outreach to public stakeholders about the missions of the Enterprises and the FHLBanks to relay information on FHFA actions and initiatives and to gather information on current housing and community investment conditions and issues.

In December 2009, FHFA held its first Affordable Housing and Community Investment Forum in Washington, D.C. During the forum, a group of housing and community investment experts from around the nation exchanged information and ideas regarding issues and market conditions that FHFA's Office of Housing Mission and Goals will consider in implementing the Enterprises' duty to serve requirement for rural and manufactured housing. FHFA plans future forums with various industry experts to assist FHFA in its policymaking for the missions of the Enterprises and the FHLBanks.

In December 2009, FHFA also held a meeting for the chairs and vice chairs of the advisory councils of the FHLBanks. The advisory councils advise the FHLBanks on affordable housing and community investment conditions and FHLBank programs in the respective districts. The advisory council leaders who attended the meeting gave FHFA input on district housing needs and issues and on how the FHLBanks' AHP, CIP and CICA programs were working in their districts.

Regulatory Guidance

Regulations: Enterprises

Flood Insurance

On January 15, 2009, FHFA published a final rule, Flood Insurance, in the *Federal Register*. The final rule codifies the authority and responsibility of FHFA to oversee and enforce the statutory requirements affecting the operations of the Enterprises under the Flood Disaster Protection Act of 1973, as amended, and to effect congressionally mandated adjustments to the civil money penalties applicable to violations.

Portfolio Holdings

On January 30, 2009, FHFA published an interim final rule, Portfolio Holdings, in the *Federal Register*, and requested comment. The comment period ended June 1, 2009. The interim final rule incorporates the limits on the portfolio holdings of the Enterprises that are established in their Senior Preferred Stock Purchase Agreements with the Treasury.

2009 Enterprise Transition Affordable Housing Goals

On August 10, 2009, FHFA published a final rule, 2009 Enterprise Transition Housing Goals, in the *Federal Register*. The final rule adjusts downward the overall housing goals for the Enterprises for 2009. The final rule permits loans owned or guaranteed by an Enterprise and modified in accordance with the Administration's Making Home Affordable Program to be treated as mortgage purchases and count for purposes of the housing goals. In addition, the final rule excludes purchases of jumbo conforming loans from counting toward the 2009 housing goals.

Prior Approval for Enterprise Products

On July 2, 2009, FHFA published an interim final rule, Prior Approval for Enterprise Products, in the *Federal Register*, and requested comment. The comment period ended August 31, 2009. The interim final rule establishes a process for obtaining prior approval from the FHFA Director for a new product and providing prior notice to the Director of a new activity.

Duty to Serve Underserved Markets for Enterprises

On August 4, 2009, FHFA published an Advance Notice of Proposed Rulemaking, Duty to Serve Underserved Markets for Enterprises, in the *Federal Register*, for public notice and comment. FHFA is required, beginning in 2010, to establish a manner for evaluating the Enterprises' compliance with the new statutory duty to serve three underserved markets—manufactured housing, affordable housing preservation, and rural areas. FHFA sought comments on the characteristics and types of Enterprise transactions and activities that should be considered and how such transactions and activities should be evaluated and rated. The comment period ended September 18, 2009.

Regulations: Federal Home Loan Banks

Capital Classifications and Critical Capital Levels for the Federal Home Loan Banks

On August 4, 2009, FHFA published a final rule, Capital Classifications and Critical Capital Levels for the Federal Home Loan Banks, in the *Federal Register*. The final rule defines the critical capital levels for the FHLBanks, establishes the criteria for capital classifications, and implements FHFA's prompt corrective action authority over the FHLBanks.

The interim final rule authorizes the FHLBanks to provide the existing Affordable Housing Program subsidy through their members to assist in the refinancing of low- or moderate-income households' mortgages under certain federal, state, and local programs for targeted refinancing.

Affordable Housing Program Amendment: Federal Home Loan Bank Mortgage Refinancing Authority

On August 4, 2009, FHFA published an interim final rule, Affordable Housing Program Amendments: Federal Home Loan Bank Mortgage Refinancing Authority, in the *Federal Register*, and requested comment. The interim final rule authorizes the FHLBanks to provide the existing Affordable Housing Program subsidy through their members to assist in the refinancing of low- or moderate-income households' mortgages under certain federal, state, and local programs for targeted refinancing. The interim rule authorizes such subsidies to those qualifying under the Hope for Homeowners program and other federal and state government programs, including the Administration's Making Home Affordable Refinancing program.

Federal Home Loan Bank Boards of Directors: Eligibility and Elections

On October 7, 2009, FHFA published a final rule, Federal Home Loan Bank Boards of Directors: Eligibility and Elections, in the *Federal Register*. The final regulation sets forth requirements regarding the eligibility and election of individuals serving on the Boards of Directors of the 12 FHLBanks. On December 1, 2009, FHFA published a proposed amendment to the final rule in the *Federal Register* to amend the process by which successor directors are chosen after an FHLBank directorship is redesignated to a new state prior to the end of the term as a result of the annual designation of FHLBank directorships. The final rule was published in the *Federal Register* on April 5, 2010, as part of the rule titled Federal Home Loan Bank Boards of Directors: Eligibility, Elections, Compensation and Expenses.

Federal Home Loan Bank Membership for Community Development Financial Institutions

On May 15, 2009, FHFA published the proposed regulation, Federal Home Loan Bank Membership for Community Development Financial Institutions, in the *Federal Register* for public notice and comment. The final rule was published on January 5, 2010. The final rule amended the membership regulations to authorize nonfederally insured, CDFI Fund-certified community development financial institutions to become members of an FHLBank. The final rule also sets forth the eligibility and procedural requirements for CDFIs that wish to become members of an FHLBank.

Board of Directors of Federal Home Loan Bank System Office of Finance

On August 4, 2009, FHFA published the proposed regulation, Board of Directors of Federal Home Loan Bank System Office of Finance, in the

Federal Register for public notice and comment. A notice of extension of the comment period was published in the *Federal Register* on October 2, 2009. The comment period ended November 4, 2009.

The proposed rule would require an increase in the size of the Board of Directors of the Office of Finance and require that it be composed of the 12 FHLBank presidents and 3 to 5 independent directors. In addition, it would set a method for electing independent directors, set qualification for these directors, provide that those directors compose the audit committee of the Board, and require that audit committee to oversee the production of the FHLBank System's combined financial reports and to ensure the financial information of the 12 FHLBanks is combined in those reports using common accounting policies.

The final rule was published in the *Federal Register* on May 3, 2010.

Federal Home Loan Bank Directors' Compensation and Expenses

On October 23, 2009, FHFA published the proposed regulation, Federal Home Loan Bank Directors' Compensation and Expenses, in the *Federal Register* for public notice and comment. The proposed rule would allow each FHLBank to pay its directors reasonable compensation and expenses, subject to the authority of the FHFA Director to prohibit compensation or expenses that the Director determines are not reasonable. The comment period ended December 7, 2009. The final rule was published in the *Federal Register* on April 5, 2010, as part of the rule titled Federal Home Loan Bank Boards of Director' Eligibility, Elections, Compensation and Expenses.

Regulations: Enterprises and Federal Home Loan Banks

Executive Compensation

On June 5, 2009, FHFA published a proposed rule, Executive Compensation, in the *Federal Register* for public notice and comment. The proposed rule would set forth requirements and processes with respect to compensation provided to executive officers by regulated entities and the Office of Finance. The comment period ended November 4, 2009.

Reporting of Fraudulent Financial Instruments

On June 27, 2009, FHFA published a proposed rule, Reporting of Fraudulent Financial Instruments, in the *Federal Register* for public notice and comment. The comment period ended August 17, 2009. The proposed rule would require the regulated entities to report to FHFA any fraudulent financial instruments that they purchased or sold. It would also require the regulated entities to establish and maintain internal controls, procedures, and training programs to ensure that any such fraudulent instruments are detected and reported. The final rule was published in the *Federal Register* on January 27, 2010.

Golden Parachute and Indemnification Payments

On June 29, 2009, FHFA published an amendment to the final rule, Golden Parachute and Indemnification Payments, in the *Federal Register* for public notice and comment. The comment period ended July 29, 2009. The proposed amendment would address in more detail prohibited and permissible golden parachute payments that a regulated entity may make to an affiliated party.

Record Retention

On August 4, 2009, FHFA published a proposed rule, Record Retention, in the *Federal Register* for public notice and comment. The comment period ended October 5, 2009.

The proposed rule would require the regulated entities and the Office of Finance to establish and maintain a record retention program to ensure that records are readily accessible for examination and other supervisory purposes.

The final rule implements the Privacy Act of 1974, as amended. It provides the policies and procedures whereby individuals may obtain notification whether an FHFA system of records contains information about them and, if so, how to access or amend a record under the Privacy Act.

Regulations: Agency Operations

Privacy Act Implementation

On July 14, 2009, FHFA published a final rule, Privacy Act Implementation, in the *Federal Register*. The final rule implements the Privacy Act of 1974, as amended. It provides the policies and procedures whereby individuals may obtain notification whether an FHFA system of records contains information about them and, if so, how to access or amend a record under the Privacy Act.

Postemployment Restriction for Senior Examiners

On October 5, 2009, FHFA published a final rule, Postemployment Restriction for Senior Examiners, in the *Federal Register*. The final rule sets forth postemployment restrictions for senior examiners of FHFA.

Policy Guidance: Regulated Entities

Accounting Practices

On October 27, 2009, FHFA issued the *Examination Guidance for Accounting Practices*. The guidance sets forth examination guidance and standards relating to the accounting practices of the Fannie Mae, Freddie Mac, and the FHLBanks consistent with the safety and soundness responsibilities of FHFA. It replaces the 2006 Accounting Examination Guidance of the FHFA predecessor agency, the Office of Federal Housing Enterprise Oversight (OFHEO), and provides a consistent approach across the entities regulated by FHFA.

Policy Guidance and Regulatory Interpretations: Federal Home Loan Banks

Student Loans as Collateral

On June 4, 2009, FHFA issued Regulatory Interpretation 2009-RI-01 stating that, as a result of changes in the statutory framework of the federal student loan guarantee program, federally guaranteed student loans are eligible to be posted as collateral for FHLBank advances.

Disclosure of Preliminary Capital Classifications

On July 20, 2009, FHFA issued an Advisory Bulletin 2009-AB-01 to the Federal Home Loan Banks and the Office of Finance. The bulletin advised that because the notification to the FHLBank of its preliminary classification is the first step in an ongoing supervisory process to establish capital classification, FHFA believes the preliminary capital classification is a form of supervisory correspondence that should be treated as unpublished information under 12 C.F.R. Part 911. The bulletin further advised that disclosure of information regarding preliminary capital classifications should take account of whether the information is important to inform the user of the information of material developments at the FHLBank.

Data Reporting Requirements: Mortgages Purchased by Federal Home Loan Banks

On August 28, 2009, FHFA issued an order requiring the FHLBanks to provide to FHFA data regarding their purchased mortgage loans as required by the Acquired Member Assets Data Reporting Instructions.

Resident Services Coordinator Expenses in Affordable Housing Program Projects

On September 11, 2009, FHFA issued a regulatory interpretation, 2009-RI-02, relating to resident services coordinator expenses in AHP projects. In response to a query from an FHLBank, FHFA concluded that under the AHP regulation, AHP subsidy for rental housing may be used only for the purchase, construction, or rehabilitation of such housing, and not for a rental project's operating expenses. Accordingly, because the expense of employing a resident services coordinator is an operating expense of the project, it is not eligible for AHP subsidy.

Principles of Executive Compensation at the Federal Home Loan Banks and the Office of Finance

On October 27, 2009, FHFA issued Advisory Bulletin 2009-AB-02, Principles of Executive Compensation at the Federal Home Loan Banks and the Office of Finance. The bulletin set forth principles that the FHFA Director will consider when evaluation compensation at the FHLBanks and the Office of Finance. The bulletin sets forth five principles:

(1) Executive compensation must be reasonable and comparable to that offered to executives in similar positions at other comparable financial institutions.

(2) Executive incentive compensation should be consistent with sound risk management and preservation of the par value of the FHLBank's capital stock.

(3) A significant percentage of an executive's incentive-based compensation should be tied to longer-term performance and outcome indicators.

(4) A significant percentage of an executive's incentive-based compensation should be deferred and made contingent upon performance over several years.

(5) The Board of Directors of each FHLBank and the Office of Finance should promoted accountability and transparency in the process of setting compensation.

Redemption of Stock by Undercapitalized Federal Home Loan Banks

On December 14, 2009, FHFA issued Regulatory Interpretation 2009-RI-03, which states that an FHLBank designated undercapitalized under the prompt corrective action provisions of the Federal Housing Enterprises Safety and Soundness Act and FHFA's implementing regulations may not redeem capital stock, subject to very narrow exceptions.

Validation and Documentation of Models and Related Controls on Internal Processes

On December 15, 2009, FHFA issued Advisory Bulletin 2009-AB-03, Validation and Documentation of Models and Related Controls on Internal Processes, to the FHLBanks and the Office of Finance. The bulletin replaces Advisory Bulletin 2006-AB-02. The earlier bulletin focused on market risk models. This bulletin explicitly includes credit risk models and also addresses the validation of externally managed vendor models, internally managed vendor models, and the importance of validating and documenting the controls over models and their use. It also discusses model validation and documentation in the case of a model that is jointly used by several FHLBanks.

FHFA Research and Publications

During 2009, FHFA focused its research plans and activities on studies and reports required by statute and on analyzing topics that helped the agency achieve its strategic goals. FHFA's three strategic goals were to:

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

FHFA placed a priority in 2009 on preparing reports to Congress required by HERA and on understanding trends in house prices and deteriorating housing market conditions. In addition, FHFA analyzed the risk and capital adequacy of the housing government-sponsored enterprises to improve the public's understanding of the mortgage finance system.

FHFA published reports and papers and posted information on its website (www.fhfa.gov). FHFA researchers also presented papers and led discussions at professional and industry conferences on topics related to housing finance and regulation of the Enterprises.

Reports to Congress

In 2009, FHFA submitted the following seven reports to Congress, as required by HERA:

1. HERA requires FHFA to conduct an ongoing study of the guarantee fees charged by Fannie Mae and Freddie and to submit annual reports to Congress, based on aggregated data collected from the Enterprises regarding the amounts of the fees and the criteria used by the Enterprises to determine them.

   In July, FHFA submitted its first annual report in fulfillment of that requirement, *Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2007 and 2008* focusing on fees charged by the Enterprises for guaranteeing conventional single-family mortgages—loans that are not insured or guaranteed by the federal government and which finance properties with four or fewer residential units.

2. HERA required FHFA to conduct a one-time study of "ways to improve the overall default risk evaluation used with respect to residential mortgage loans" and to report to Congress on the results of that study. To aid in the preparation of the report, FHFA and the Federal Deposit Insurance Corporation's Center for Financial Research jointly selected seven papers for a public symposium on "Improving Assessment of the Default Risk of Single-Family Mortgages" held in September. In October, FHFA submitted to Congress a report, *Default Risk Evaluation in the Single-Family Mortgage Market*, which summarized and evaluated the papers in the context of previous research and of the comments provided by attendees at the symposium. The seven papers were included in the appendices to the report.

3. HERA requires FHFA to submit annually to Congress a report on the housing

activities of Fannie Mae and Freddie Mac. FHFA submitted its first such report in October 2009. That report provided information required in the law regarding Enterprise housing goal performance in 2008, reviewed the status of rulemaking regarding housing goals for 2009 and future years, and provided information on other aspects of FHFA and Enterprise activities.

4. HERA required FHFA to conduct a one-time study on securitization of home mortgage loans purchased or to be purchased by the FHLBanks from member financial institutions under their acquired member assets programs and to report to Congress on the results of that study. In July, FHFA submitted to Congress a report on *Securitization of Mortgage Loans by the Federal Home Loan Bank System*. The report details the results of FHFA's study and includes policy recommendations based on the agency's analysis of the feasibility of the FHLBanks issuing MBS and of the benefits and risks associated with such a program.

5. HERA requires FHFA to submit annually to Congress a report on the collateral pledged to the FHLBanks to secure advances. In January, FHFA released its first *Report on Collateral Securing Advances at the Federal Home Loan Banks*, containing the results of FHFA's 2008 collateral data survey. In July, FHFA released its second report in fulfillment of the requirement, detailing the results of the 2009 survey.

6. HERA requires FHFA to report to Congress on the extent to which loans and securities used as collateral for the Federal Home Loan Bank advances are consistent with the interagency guidance on nontraditional mortgage products. In July, FHFA published its *Report on Federal Home Loan Bank Collateral for Advances and Interagency Guidance on Nontraditional Mortgage Products*.

7. HERA required FHFA to provide to Congress, within 180 days of HERA's enactment, FHFA's 2007 report to the Federal Home Loan Banks' Advisory Councils on the Banks' activities in support of community development and low-income housing. The Federal Home Loan Bank Act requires FHFA to submit that report annually to the Advisory Councils. Accordingly, in January 2009 FHFA submitted to Congress its *2007 Report of the Low-Income Housing and Community Development Activities of the Federal Home Loan Bank System*.

House Price Index and Related Research

Continuing to expand the suite of house price indexes FHFA offers for public use, the agency released a number of new house price index series in 2009. Until the first quarter of the year, FHFA's set of "purchase-only" indexes, which are estimated using sales price information from purchase-money mortgages, did not include indexes for Metropolitan Statistical Areas. Responding to public demand, FHFA began releasing purchase-only series for the 25 largest metropolitan areas in the United States with the first quarter release. Seasonally adjusted and unadjusted versions of statistical area purchase-only series were made available for download on the FHFA website.

With the same release, FHFA also began producing seasonally adjusted editions of its state purchase-only indexes. For many states, seasonal factors can have very strong influences on quarterly price trends, so the new series, as with the metropolitan-area seasonally adjusted series, could provide a clearer picture of recent price developments.

FHFA's Office of Policy Analysis and Research continued evaluating ways the agency could improve HPI in 2009. One issue was assessing the appropriate weighting system to be used to form the national index. In 2009 as well as today, the change in the national HPI is set equal to the weighted average quarterly change for the nine Census Divisions. Computing the national change with measures for smaller geographic areas yielded certain advantages. For example, using state (as opposed to Census Division) measures would potentially mitigate biases that arise when relative sales volumes within Census Divisions are correlated with home price trends.

To address a growing number of requests for information on the impact of foreclosure sales on FHFA's index, FHFA in May released a research paper, *The Impact of Distressed Sales on Repeat-Transactions House Price Indexes*, which evaluated the impact of distressed sales on measurements of price trends in California. The research used address-level data on notice of default filings in that state to identify distressed sales, which would include sales of real estate owned as well as short sales.

By comparing the standard HPI to an index calculated after distressed sales were omitted, the analysis found small but measureable effects. The decline in house prices since the peak in California was found to be about 5 percent less severe when distressed sales were omitted from the estimation dataset. Interestingly, the research also found that this effect was actually larger than the effect distressed sales were having on an index based on county recorder data. That result was inconsistent with prior conjectures that suggested county-recorder-based indexes were showing larger price declines than HPI because of the relatively strong effects of distressed sales.

A mortgage market note published in May focused on California as well, but presented a broad analysis of contemporary housing and mortgage market conditions in the state. In addition to price trends, the note discussed trends in sales volumes, inventories of for-sale properties, evidence of "shadow inventory," and mortgage delinquencies and defaults. The research indicated that market conditions in the state, though quite weak, were no longer significantly deteriorating. The note cited stemming the rate of foreclosure as an important element to house price recovery in that state.

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In light of the depth and breadth of the housing bust in California and elsewhere, FHFA in June released another research paper, *A Brief Examination of Previous House Price Declines*. The research paper provided summary statistics for the depth and duration of prior downturns for Census Divisions, states, and Metropolitan Statistical Areas. When measured in inflation-adjusted terms, prior busts were shown to have been associated with very slow recovery periods. Price increases during recovery periods tended to be much more modest than the rate of price decline exhibited during housing busts.

The paper also analyzed inflation-adjusted price trends in some areas that had notable declines in the 1980s and 1990s, including California and Texas. Because some mortgage decisions tend to involve analysis of nominal (instead of inflation-adjusted) prices, the paper concluded with statistics on the depth and duration of prior busts when assessed in nominal terms. The basic findings of that investigation were fundamentally the same as for the inflation-adjusted series.

Other Research Products

FHFA published several other research products in 2009. A research paper, *Housing and Mortgage Markets and the Housing Government-Sponsored Enterprises in 2008*, released in December, reviewed developments in the housing sector, activity in the primary and secondary mortgage markets, and the financial performance of Fannie Mae and Freddie Mac in 2008. The paper is the most recent in an annual series.

In addition to the mortgage market note related to housing and mortgage market conditions in California, FHFA published two other mortgage market notes and twice updated a mortgage market note published in the previous year. In July, FHFA published a note on the capital of the FHLBanks. That note, which explains the different measures of capital, capital requirements, and capital classifications for those institutions, provided data for each FHLBank and for the system as a whole as of year end 2005 through 2008 and for the first quarter of 2009.

In August, FHFA released a mortgage market note that discussed the evolution of residential mortgage insurance in the United States, explored recent mortgage insurance trends, and reviewed how Fannie Mae and Freddie Mac use private mortgage insurance. In February and again in July, FHFA updated *U.S. Treasury Support for Fannie and Freddie Mac*, a mortgage market note first published in December 2008 that outlines the various facilities introduced by the Treasury Department to support the Enterprises in conservatorship.

As in past years, FHFA reported a Monthly Interest Rate Survey of purchase-money mortgages and publicized its estimates of single-family mortgages originated and outstanding and the Enterprises' combined share of residential mortgage debt outstanding.

FHFA Operations and Performance

Performance and Program Assessment

FY 2009 was FHFA's first full year in operation. FHFA made substantial progress in establishing the infrastructure, policies and processes needed to organize and run a new federal agency while meeting the challenges of overseeing the Enterprises, all 12 FHLBanks, and the Office of Finance. This included integrating staff and cultures from three agencies (the former Federal Housing Finance Board [FHFB], the former OFHEO, and HUD). FHFA also combined the personnel and financial systems of its two predecessor agencies (FHFB and OFHEO) and established an information technology infrastructure to serve the agency.

On November 16, 2009, FHFA published its annual *Performance and Accountability Report* (PAR) detailing the agency's FY 2009 performance. For the second straight year, FHFA's PAR received the prestigious Certificate for Excellence in Accountability Reporting (CEAR) award from the Association of Government Accountants. The CEAR award recognizes outstanding accountability reporting and is the highest form of recognition in federal government management reporting.

FHFA exceeded, achieved, or substantially achieved 66 percent of its 61 performance measures in FY 2009. There were several factors affecting FHFA's performance in 2009, including the conservatorships of the Enterprises and the overall nationwide decline in the housing and mortgage markets.

In 2009, FHFA expanded its use of financial and performance information in managing program operations. FHFA integrated its budget and performance development and made significant program improvements. The Government Accountability Office audited the agency's financial statements and issued a clean audit opinion with no material weaknesses. The Office of Personnel Management also conducted a delegated examination unit review in the third quarter of FY 2009 and identified no material weaknesses.

During FY 2009, FHFA's Executive Committee on Internal Controls met quarterly to oversee and make recommendations to the Director on the effectiveness of FHFA's internal controls. The executive committee completed its annual OMB Circular A-123 review of internal controls over financial reporting, effectiveness of operations, and compliance with laws and regulations. The committee established assessment teams that concluded with reasonable assurance that the agency had effective controls in place during FY 2009.

During FY 2009, FHFA made significant accomplishments. Highlights of FHFA's FY 2009 key activities and accomplishments are as follows:

Mission Highlights

- Conducted continuous supervision activities and targeted reviews at Fannie Mae and Freddie Mac.
- Examined all 12 FHLBanks and the Office of Finance for safety and soundness.
- Completed all scheduled AHP examinations and on-site visitations during FY 2009.
- Worked with the FHLBanks to adopt a common platform for accounting for private-label MBS, which contributed to greater standardization and coordination of the FHLBanks in valuing their private-label MBS holdings and determining other-than-temporary impairment.
- Provided new accounting guidance that gave examiners criteria to assess risks posed by a regulated entity's accounting, internal control over financial reporting, and audit functions. The new guidance promotes

consistency in implementation of generally accepted accounting principles to enhance transparency.

- Published the first annual report on guarantee fees charged by the Enterprises for conventional single-family mortgages —loans the federal government does not insure or guarantee that finance properties with four or fewer residential units. The report, issued on July 30, 2009, covered single-family fees for loans acquired by the Enterprises in 2007 and 2008.
- Published two reports related to collateral securing advances at the FHLBanks. The first report analyzed collateral data as of December 31, 2008, by type and FHLBank district. The second report studied the extent to which loans and securities used as collateral to support FHLBank advances were consistent with the interagency guidance issued by federal banking regulators on nontraditional mortgage products and subprime lending.
- Published an Advance Notice of Proposed Rulemaking to begin the process of establishing a manner for evaluating and rating whether and to what extent the Enterprises have complied with their duty to serve. HERA amended the Federal Housing Enterprises Safety and Soundness Act of 1992, establishing a duty for the Enterprises to serve three underserved markets—manufactured housing, affordable housing preservation, and rural areas—to increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing in those markets.
- Helped develop the Administration's MHA program, which has helped at-risk homeowners avoid foreclosure. Two principal elements of the program are HARP, which provides access to low-cost refinancing for loans owned by the Enterprises, and HAMP, which establishes a national standard for loan modifications.
- Published final regulations on golden parachute payments on July 14, 2009, and capital classifications and prompt corrective action on August 4, 2009.
- Published an executive compensation proposed rule that sets forth requirements and processes with respect to compensation provided to executive officers by the Enterprises, FHLBanks, and the Office of Finance, consistent with FHFA's safety and soundness responsibilities under HERA.
- Established affordable housing goals and published the final rule on August 10, 2009.
- Developed the agency's median house price index and draft paper describing the approach for estimating median prices.

Administrative Highlights

- Transferred former OFHEO, FHFB, and certain HUD employees to FHFA.
- Contracted with the Treasury Department's Bureau of Public Debt Administrative Resource Center to implement a single integrated accounting service for FHFA.
- Coordinated the programming and systems changes with the National Finance Center to establish a unified payroll and processing system.

- Worked to unify FHFA information technology infrastructure operations.
- Published FHFA's first strategic and human capital plans.
- Established an Office of Internal Audit to carry out audit functions.

Financial Operations

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

In FY 2009, FHFA's operating budget was $120.8 million. During FY 2009, FHFA recovered $6 million in unspent prior year obligations and had a $900,000 reduction in the costs of reimbursable agreements from the legacy agencies. Total budget resources were $125.9 million as a result. FHFA obligated all but $9.7 million of that amount. Excluding $3 million for the working capital fund, $6.7 million in unobligated funding was credited to FY 2010 assessments. The agency's highest cost outlay was for payroll expenses. Funded payroll expenses were $77.4 million for FY 2009, which included the full-year cost of 414 full-time equivalents. During FY 2009, FHFA focused on hiring and retaining staff to ensure effective oversight of the regulated entities.

Unified Financial Operations

FHFA contracted with the Treasury Department's Bureau of Public Debt to provide accounting services for the agency, effective July 1, 2009. The transition to the Bureau of Public Debt provides the agency with an integrated system for its accounting, procurement, and travel activities. Combining the financial accounting functions of OFHEO and FHFB was an important step toward completing the transition to an operationally unified agency.

Unqualified Audit Opinions in FY 2009

In its first full year of operations, the Government Accountability Office gave FHFA an unqualified clean audit opinion on its FY 2009 financial statements. This was a noteworthy achievement in light of the tremendous change associated with developing and establishing the infrastructure for a new agency. The Government Accountability Office identified no material weaknesses in internal controls or instances of noncompliance with laws or regulations.

Historical Data Tables

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Table 1. Fannie Mae Mortgage Purchases

Period	Business Activity ($ in Millions)			
	Purchases			
	Single-Family[1] ($)	Multifamily[1] ($)	Total Mortgages[1] ($)	Mortgage-Related Securities[2] ($)
4Q09	130,595	4,723	135,318	34,034
3Q09	180,037	5,335	185,372	61,451
2Q09	220,571	6,066	226,637	60,115
1Q09	169,050	3,788	172,838	5,962
Annual Data				
2009	700,253	19,912	720,165	161,562
2008	582,947	34,288	617,235	77,523
2007	659,366	45,302	704,668	69,236
2006	524,379	20,646	545,025	102,666
2005	537,004	21,485	558,489	62,232
2004	588,119	16,386	604,505	176,385
2003	1,322,193	31,196	1,353,389	408,606
2002	804,192	16,772	820,964	268,574
2001	567,673	19,131	586,804	209,124
2000	227,069	10,377	237,446	129,716
1999	316,136	10,012	326,148	169,905
1998	354,920	11,428	366,348	147,260
1997	159,921	6,534	166,455	50,317
1996	164,456	6,451	170,907	46,743
1995	126,003	4,966	130,969	36,258
1994	158,229	3,839	162,068	25,905
1993	289,826	4,135	293,961	6,606
1992	248,603	2,956	251,559	5,428
1991	133,551	3,204	136,755	3,080
1990	111,007	3,180	114,187	1,451
1989	80,510	4,325	84,835	Not Applicable Before 1990
1988	64,613	4,170	68,783	
1987	73,942	1,733	75,675	
1986	77,223	1,877	79,100	
1985	42,543	1,200	43,743	
1984	27,713	1,106	28,819	
1983	26,339	140	26,479	
1982	25,929	10	25,939	
1981	6,827	2	6,829	
1980	8,074	27	8,101	
1979	10,798	9	10,807	
1978	12,302	3	12,305	
1977	4,650	134	4,784	
1976	3,337	295	3,632	
1975	3,646	674	4,320	
1974	4,746	2,273	7,019	
1973	4,170	2,082	6,252	
1972	2,596	1,268	3,864	
1971	2,742	1,298	4,040	

Source: Fannie Mae

1 Includes lender-originated mortgage-backed securities (MBS) issuances, cash purchases, and capitalized interest. Based on unpaid principal balances and excludes mortgage loans and securities traded but not yet settled.

2 Not included in total mortgage purchases. Includes purchases of Fannie Mae MBS held for investment and mortgage-related securities traded but not yet settled. Based on unpaid principal balances. Activity does not include dollar roll transactions.

Table 1a. Fannie Mae Mortgage Purchases Detail by Type of Loan

Period	Purchases ($ in Millions)[1]											
	Single-Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA/RD			Total Single-Family Mortgages ($)	Conventional ($)	FHA/RD[3] ($)	Total Multi-family Mortgages ($)	
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate[3] ($)	Adjustable-Rate ($)	Total ($)					
4Q09	118,183	10,937	0	129,120	243	1,232	1,475	130,595	4,329	394	4,723	135,318
3Q09	171,345	6,613	0	177,958	352	1,727	2,079	180,037	5,335	0	5,335	185,372
2Q09	212,729	3,513	0	216,242	280	4,049	4,329	220,571	6,066	0	6,066	226,637
1Q09	161,506	2,045	0	163,551	261	5,238	5,499	169,050	3,787	1	3,788	172,838
	Annual Data											
2009	663,763	23,108	0	686,871	1,136	12,246	13,382	700,253	19,517	395	19,912	720,165
2008	517,673	46,910	6	564,589	1,174	17,184	18,358	582,947	34,288	0	34,288	617,235
2007	583,253	64,133	34	647,420	1,237	10,709	11,946	659,366	45,302	0	45,302	704,668
2006	429,930	85,313	130	515,373	1,576	7,430	9,006	524,379	20,644	2	20,646	545,025
2005	416,720	111,935	116	528,771	2,285	5,948	8,233	537,004	21,343	142	21,485	558,489
2004	527,456	46,772	51	574,279	9,967	3,873	13,840	588,119	13,684	2,702	16,386	604,505
2003	1,236,045	64,980	93	1,301,118	18,032	3,043	21,075	1,322,193	28,071	3,125	31,196	1,353,389
2002	738,177	48,617	40	786,834	15,810	1,548	17,358	804,192	15,089	1,683	16,772	820,964
2001	534,115	25,648	1,137	560,900	5,671	1,102	6,773	567,673	17,849	1,282	19,131	586,804
2000	187,236	33,809	726	221,771	4,378	920	5,298	227,069	9,127	1,250	10,377	237,446
1999	293,188	12,138	1,198	306,524	8,529	1,084	9,613	316,137	8,858	1,153	10,011	326,148
1998	334,367	14,273	1	348,641	5,768	511	6,279	354,920	10,844	584	11,428	366,348
1997	136,329	21,095	3	157,427	2,062	432	2,494	159,921	5,936	598	6,534	166,455
1996	146,154	15,550	3	161,707	2,415	334	2,749	164,456	6,199	252	6,451	170,907
1995	104,901	17,978	9	122,888	3,009	106	3,115	126,003	4,677	289	4,966	130,969
1994	139,815	16,340	8	156,163	1,953	113	2,066	158,229	3,620	219	3,839	162,068
1993	274,402	14,420	29	288,851	855	120	975	289,826	3,919	216	4,135	293,961
1992	226,332	21,001	136	247,469	1,055	79	1,134	248,603	2,845	111	2,956	251,559
1991	114,321	17,187	705	132,213	1,300	38	1,338	133,551	3,183	21	3,204	136,755
1990	95,011	14,528	654	110,193	799	15	814	111,007	3,165	15	3,180	114,187
1989	60,794	17,692	521	79,007	1,489	14	1,503	80,510	4,309	16	4,325	84,835
1988	35,767	27,492	433	63,692	823	98	921	64,613	4,149	21	4,170	68,783
1987	60,434	10,675	139	71,248	2,649	45	2,694	73,942	1,463	270	1,733	75,675
1986	58,251	7,305	498	66,054	11,155	14	11,169	77,223	1,877	0	1,877	79,100
1985	29,993	10,736	871	41,600	927	16	943	42,543	1,200	0	1,200	43,743
1984	17,998	8,049	937	26,984	729	0	729	27,713	1,106	0	1,106	28,819
1983	18,136	4,853	1,408	24,397	1,942	0	1,942	26,339	128	12	140	26,479
1982	19,311	3,210	1,552	24,073	1,856	0	1,856	25,929	0	10	10	25,939
1981	4,260	107	176	4,543	2,284	0	2,284	6,827	0	2	2	6,829
1980	2,802	0	0	2,802	5,272	0	5,272	8,074	0	27	27	8,101
1979	5,410	0	0	5,410	5,388	0	5,388	10,798	0	9	9	10,807
1978	5,682	0	0	5,682	6,620	0	6,620	12,302	0	3	3	12,305
1977	2,366	0	0	2,366	2,284	0	2,284	4,650	0	134	134	4,784
1976	2,513	0	0	2,513	824	0	824	3,337	0	295	295	3,632
1975	547	0	0	547	3,099	0	3,099	3,646	0	674	674	4,320
1974	1,128	0	0	1,128	3,618	0	3,618	4,746	0	2,273	2,273	7,019
1973	939	0	0	939	3,231	0	3,231	4,170	0	2,082	2,082	6,252
1972	55	0	0	55	2,541	0	2,541	2,596	0	1,268	1,268	3,864
1971	0	0	0	0	2,742	0	2,742	2,742	0	1,298	1,298	4,040

Source: Fannie Mae

1 Includes lender-originated MBS issuances, cash purchases, and capitalized interest. Based on unpaid principal balances; excludes mortgage loans traded but not yet settled.

2 Includes balloon and energy loans.

3 Includes loans guaranteed by USDA Rural Development programs.

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities – Part 1

Period	Purchases ($ in Millions)[1]														
	Fannie Mae Securities				Others' Securities									Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
	Single-Family		Multi-family ($)	Total Fannie Mae[2] ($)	Freddie Mac				Ginnie Mae				Total Private-Label[2] ($)		
	Fixed Rate[2] ($)	Adjustable-Rate ($)			Single-Family: Fixed-Rate ($)	Single-Family: Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Single-Family: Fixed-Rate ($)	Single-Family: Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)			
4Q09	14,173	51	1,229	15,453	18,573	0	0	18,573	8	0	0	8	0	0	34,034
3Q09	24,270	19	1,611	25,900	34,061	23	0	34,084	1,467	0	0	1,467	0	0	61,451
2Q09	49,221	213	1,308	50,742	9,217	135	0	9,352	20	0	0	20	0	1	60,115
1Q09	4,525	43	1,383	5,951	10	0	0	10	0	0	0	0	0	1	5,962
Annual Data															
2009	92,189	326	5,531	98,046	61,861	158	0	62,019	1,495	0	0	1,495	0	2	161,562
2008	56,894	10,082	1,023	67,999	3,649	3,168	0	6,817	0	128	0	128	2,295	284	77,523
2007	16,126	8,277	506	24,909	2,017	4,055	0	6,072	0	35	0	35	37,435	785	69,236
2006	23,177	14,826	429	38,432	1,044	5,108	0	6,152	77	0	0	77	57,787	218	102,666
2005	8,273	6,344	888	15,505	121	3,449	0	3,570	0	0	0	0	41,369	1,788	62,232
2004	42,214	21,281	1,159	64,654	6,546	8,228	0	14,774	0	0	0	0	90,833	6,124	176,385
2003	341,461	5,842	1,225	348,528	19,340	502	0	19,842	36	0	0	36	34,032	6,168	408,606
2002	238,711	4,219	1,572	244,502	7,856	101	0	7,957	4,425	0	0	4,425	7,416	4,273	268,574
2001	Not Available	Not Available	Not Available	180,582	Not Available	Not Available	Not Available	20,072	Not Available	Not Available	Not Available	333	3,513	4,624	209,124
2000	Before 2002	Before 2002	Before 2002	104,904	Before 2002	Before 2002	Before 2002	10,171	Before 2002	Before 2002	Before 2002	2,493	8,466	3,682	129,716
1999				125,498				6,861				17,561	16,511	3,474	169,905
1998				104,728				21,274				2,738	15,721	2,799	147,260
1997				39,033				2,119				3,508	4,188	1,469	50,317
1996				41,263				779				2,197	777	1,727	46,743
1995				30,432				2,832				20	752	2,222	36,258
1994				21,660				571				2,321	0	1,353	25,905
1993				6,275				0				0	0	331	6,606
1992				4,930				0				0	0	498	5,428
1991				2,384				0				0	0	696	3,080
1990				977				0				0	0	474	1,451

Source: Fannie Mae

1 Includes purchases of Fannie Mae MBS held for investment. Activity does not include dollar roll transactions. Based on unpaid principal balances; excludes mortgage-related securities traded but not yet settled.

2 Certain amounts previously reported as Fannie Mae fixed-rate securities have been reclassified as private-label securities.

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities – Part 2, Private-Label Detail

Period	Purchases ($ in Millions)[1]								
	Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Subprime		Alt-A		Other			
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q09	0	0	0	0	0	0	0	0	0
3Q09	0	0	0	0	0	0	0	0	0
2Q09	0	0	0	0	0	0	0	0	0
1Q09	0	0	0	0	0	0	0	0	0
Annual Data									
2009	0	0	0	0	0	0	0	0	0
2008	0	0	637	175	0	0	987	496	2,295
2007	0	343	15,628	38	5,250	0	178	15,998	37,435
2006	0	0	35,606	1,504	10,469	0	518	9,690	57,787
2005	0	0	24,469	3,574	12,535	118	571	102	41,369
2004	0	176	66,827	7,064	14,935	221	1,509	101	90,833
2003	0	0	25,769	7,734	370	98	0	61	34,032
2002	56	181	4,963	1,756	0	43	381	36	7,416
2001	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	3,513
2000	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	8,466
1999									16,511
1998									15,721
1997									4,188
1996									777
1995									752

Source: Fannie Mae

[1] Based on unpaid principal balances and includes mortgage loans and mortgage-related securities traded but not yet settled. Certain amounts previously reported for years prior to 2007 have changed as a result of the reclassification of certain securities.

Table 2. Fannie Mae MBS Issuances

Period	Business Activity ($ in Millions)			
	MBS Issuances[1]			
	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[2] ($)
4Q09	131,789	4,691	136,480	34,148
3Q09	196,515	4,627	201,142	29,333
2Q09	311,171	4,740	315,911	23,392
1Q09	151,943	2,377	154,320	13,973
Annual Data				
2009	791,418	16,435	807,853	100,846
2008	536,951	5,862	542,813	67,559
2007	622,458	7,149	629,607	112,563
2006	476,161	5,543	481,704	124,856
2005	500,759	9,379	510,138	123,813
2004	545,635	6,847	552,482	94,686
2003	1,196,730	23,336	1,220,066	260,919
2002	731,133	12,497	743,630	170,795
2001	514,621	13,801	528,422	139,403
2000	204,066	7,596	211,662	39,544
1999	292,192	8,497	300,689	55,160
1998	315,120	11,028	326,148	84,147
1997	143,615	5,814	149,429	85,415
1996	144,201	5,668	149,869	30,780
1995	106,269	4,187	110,456	9,681
1994	128,385	2,237	130,622	73,365
1993	220,485	959	221,444	210,630
1992	193,187	850	194,037	170,205
1991	111,488	1,415	112,903	112,808
1990	96,006	689	96,695	68,291
1989	66,489	3,275	69,764	41,715
1988	51,120	3,758	54,878	17,005
1987	62,067	1,162	63,229	9,917
1986	60,017	549	60,566	2,400
1985	23,142	507	23,649	Not Issued Before 1986
1984	13,087	459	13,546	
1983	13,214	126	13,340	
1982	13,970	Not Issued Before 1983	13,970	
1981	717		717	

Source: Fannie Mae

1 Lender-originated MBS plus issuances from Fannie Mae's portfolio. Based on unpaid principal balances and excludes mortgage-related securities traded but not yet settled.

2 Beginning in 2006, includes grantor trusts and Real Estate Mortgage Investment Conduits (REMICs) as well as stripped MBS backed by Fannie Mae certificates.

Table 3. Fannie Mae Earnings

Period	Earnings ($ in Millions)						
	Net Interest Income[1] ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[2] ($)	Net Income (Loss) ($)	Return on Equity[3] (%)
4Q09	3,697	1,877	28.1	612	11,920	(15,175)	N/M
3Q09	3,830	1,923	29.1	562	21,960	(18,872)	N/M
2Q09	3,735	1,659	25.5	510	18,784	(14,754)	N/M
1Q09	3,248	1,752	27.4	523	20,872	(23,168)	N/M
Annual Data							
2009	14,510	7,211	27.6	2,207	73,536	(71,969)	N/M
2008	8,782	7,621	31.0	1,979	29,809	(58,707)	N/M
2007	4,581	5,071	23.7	2,669	5,012	(2,050)	(8.3)
2006	6,752	4,250	22.2	3,076	783	4,059	11.3
2005	11,505	4,006	22.3	2,115	428	6,347	19.5
2004	18,081	3,784	21.8	1,656	363	4,967	16.6
2003	19,477	3,432	21.9	1,454	353	8,081	27.6
2002	18,426	2,516	19.3	1,156	273	3,914	15.2
2001	8,090	1,482	19.0	1,017	78	5,894	39.8
2000	5,674	1,351	19.5	905	94	4,448	25.6
1999	4,894	1,282	19.3	800	127	3,912	25.2
1998	4,110	1,229	20.2	708	261	3,418	25.2
1997	3,949	1,274	22.7	636	375	3,056	24.6
1996	3,592	1,196	22.4	560	409	2,725	24.1
1995	3,047	1,086	22.0	546	335	2,144	20.9
1994	2,823	1,083	22.5	525	378	2,132	24.3
1993	2,533	961	21.3	443	305	1,873	25.3
1992	2,058	834	21.2	381	320	1,623	26.5
1991	1,778	675	21.0	319	370	1,363	27.7
1990	1,593	536	21.1	286	310	1,173	33.7
1989	1,191	408	21.3	254	310	807	31.1
1988	837	328	21.6	218	365	507	25.2
1987	890	263	22.1	197	360	376	23.5
1986	384	175	23.8	175	306	105	9.5
1985	139	112	25.6	142	206	(7)	(0.7)
1984	(90)	78	26.2	112	86	(71)	(7.4)
1983	(9)	54	26.3	81	48	49	5.1
1982	(464)	16	27.2	60	36	(192)	(18.9)
1981	(429)	0	25.0	49	(28)	(206)	(17.2)
1980	21	Not Available	Not Available	44	19	14	0.9
1979	322	Before 1981	Before 1981	46	35	162	11.3
1978	294			39	36	209	16.5
1977	251			32	28	165	15.3
1976	203			30	25	127	13.8
1975	174			27	16	115	14.1
1974	142			23	17	107	14.7
1973	180			18	12	126	20.3
1972	138			13	5	96	18.8
1971	49			15	4	61	14.4

Source: Fannie Mae

N/M = not meaningful

1 Interest income net of interest expense. Beginning November 2006, fees received from the interest earned on cash flows between the date of remittance of mortgage and other payments to Fannie Mae by servicers and the date of distribution of these payments to MBS investors are excluded from "Net Interest Income."

2 Credit-related expenses include provision for credit losses and foreclosed property expense (income).

3 Net income (loss) available to common stockholders divided by average outstanding common equity.

Table 4. Fannie Mae Balance Sheet

End of Period	Balance Sheet ($ in Millions)							Mortgage-Backed Securities Outstanding ($ in Millions)	
	Total Assets[1] ($)	Total Mortgage Assets[2] ($)	Nonmortgage Investments[3] ($)	Debt Outstanding ($)	Shareholders' Equity (Deficit) ($)	Core Capital[4] ($)	Fair Value of Net Assets ($)	Total MBS Outstanding[5] ($)	Multiclass MBS Outstanding[6] ($)
4Q09	869,141	745,271	57,782	774,554	(15,281)	(74,540)	(98,701)	2,432,789	480,057
3Q09	890,275	775,422	44,596	802,990	(14,960)	(58,226)	(90,294)	2,416,391	470,788
2Q09	911,382	773,017	41,556	833,110	(10,602)	(38,480)	(101,928)	2,366,633	470,170
1Q09	919,638	765,214	63,908	854,001	(18,929)	(31,848)	(110,177)	2,326,109	475,685
Annual Data									
2009	869,141	745,271	57,782	774,554	(15,281)	(74,540)	(98,701)	2,432,789	480,057
2008	912,404	767,989	71,550	870,393	(15,314)	(8,641)	(105,150)	2,289,459	481,137
2007	882,547	723,620	86,875	796,299	44,011	45,373	35,799	2,118,909	490,692
2006	843,936	726,434	56,983	767,046	41,506	41,950	43,699	1,777,550	456,970
2005	834,168	736,803	46,016	764,010	39,302	39,433	42,199	1,598,918	412,060
2004	1,020,934	925,194	47,839	953,111	38,902	34,514	40,094	1,408,047	368,567
2003	1,022,275	919,589	59,518	961,280	32,268	26,953	28,393	1,300,520	398,516
2002	904,739	820,627	39,376	841,293	31,899	20,431	22,130	1,040,439	401,406
2001	799,948	706,347	65,982	763,467	18,118	25,182	22,675	863,445	392,457
2000	675,224	607,731	52,347	642,682	20,838	20,827	20,677	706,722	334,508
1999	575,308	523,103	37,299	547,619	17,629	17,876	20,525	679,145	335,514
1998	485,146	415,434	58,515	460,291	15,453	15,465	14,885	637,143	361,613
1997	391,673	316,592	64,596	369,774	13,793	13,793	15,982	579,138	388,360
1996	351,041	286,528	56,606	331,270	12,773	12,773	14,556	548,173	339,798
1995	316,550	252,868	57,273	299,174	10,959	10,959	11,037	513,230	353,528
1994	272,508	220,815	46,335	257,230	9,541	9,541	10,924	486,345	378,733
1993	216,979	190,169	21,396	201,112	8,052	8,052	9,126	471,306	381,865
1992	180,978	156,260	19,574	166,300	6,774	Not Applicable	9,096	424,444	312,369
1991	147,072	126,679	9,836	133,937	5,547	Before 1993	Not Available	355,284	224,806
1990	133,113	114,066	9,868	123,403	3,941		Before 1992	288,075	127,278
1989	124,315	107,981	8,338	116,064	2,991			216,512	64,826
1988	112,258	100,099	5,289	105,459	2,260			170,097	26,660
1987	103,459	93,665	3,468	97,057	1,811			135,734	11,359
1986	99,621	94,123	1,775	93,563	1,182			95,568	Not Issued
1985	99,076	94,609	1,466	93,985	1,009			54,552	Before 1987
1984	87,798	84,135	1,840	83,719	918			35,738	
1983	78,383	75,247	1,689	74,594	1,000			25,121	
1982	72,981	69,356	2,430	69,614	953			14,450	
1981	61,578	59,629	1,047	58,551	1,080			717	
1980	57,879	55,589	1,556	54,880	1,457			Not Issued	
1979	51,300	49,777	843	48,424	1,501			Before 1981	
1978	43,506	42,103	834	40,985	1,362				
1977	33,980	33,252	318	31,890	1,173				
1976	32,393	31,775	245	30,565	983				
1975	31,596	30,820	239	29,963	861				
1974	29,671	28,666	466	28,168	772				
1973	24,318	23,589	227	23,003	680				
1972	20,346	19,652	268	19,239	559				
1971	18,591	17,886	349	17,672	460				

Source: Fannie Mae

1 Beginning in 1998, the guarantee liability for Fannie Mae MBS held as investments is classified as a liability.

2 Gross mortgage assets net of unamortized purchase premiums, discounts, and cost basis adjustments and, beginning in 2002, fair-value adjustments on available-for-sale and trading securities, as well as impairments on available-for-sale securities. Excludes the allowance for loan losses on loans held for investment. The amounts for 1999 through 2001 include certain loans held for investment previously classified as nonmortgage investments.

3 Data reflect unpaid principal balance net of unamortized purchase premiums, discounts, and cost basis adjustments, as well as fair-value adjustments and impairments on available-for-sale and trading securities. Since 2005, advances to lenders are not included. Amounts for periods prior to 2005 may include or consist of advances to lenders. Prior to 1982, the majority of nonmortgage investments consisted of U.S. government securities and agency securities.

4 The sum of (a) the stated value of outstanding common stock (common stock less Treasury stock); (b) the stated value of outstanding noncumulative perpetual preferred stock; (c) paid-in capital; and (d) retained earnings (accumulated deficit). Core capital excludes accumulated other comprehensive income (loss) and senior preferred stock.

5 Unpaid principal balance of Fannie Mae MBS held by third-party investors. Includes guaranteed whole loan REMICs and private-label wraps not included in grantor trusts. The principal balance of resecuritized Fannie Mae MBS is included only once.

6 Beginning in 2005, consists of securities guaranteed by Fannie Mae that are backed by Ginnie Mae collateral, grantor trusts, and REMICs, as well as stripped MBS backed by Fannie Mae certificates.

Table 4a. Fannie Mae Total MBS Outstanding Detail

End of Period	Single-Family Mortgages ($ in Millions) [1]							Multifamily Mortgages ($ in Millions) [1]			Total MBS Outstanding ($)
	Conventional				FHA/VA						
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	Conventional ($)	FHA/RD ($)	Total Multi-family ($)	
4Q09	2,190,357	179,655	25	2,370,037	15,026	171	15,197	46,628	927	47,555	2,432,789
3Q09	2,180,295	180,420	26	2,360,741	11,830	180	12,010	43,018	622	43,640	2,416,391
2Q09	2,125,900	187,173	28	2,313,101	12,190	193	12,383	40,443	706	41,149	2,366,633
1Q09	2,078,956	195,789	30	2,274,775	12,448	205	12,653	37,855	736	38,591	2,326,019
Annual Data											
2009	2,190,357	179,655	25	2,370,037	15,026	171	15,197	46,628	927	47,555	2,432,789
2008	2,035,020	203,206	31	2,238,257	12,903	214	13,117	37,298	787	38,085	2,289,459
2007	1,850,150	214,245	0	2,064,395	14,982	275	15,257	38,218	1,039	39,257	2,118,909
2006	1,484,147	230,667	0	1,714,814	18,615	454	19,069	42,184	1,483	43,667	1,777,550
2005	1,290,354	232,689	0	1,523,043	23,065	668	23,733	50,346	1,796	52,142	1,598,918
2004	1,243,343	75,722	0	1,319,065	31,389	949	32,336	47,386	9,260	56,646	1,408,047
2003	1,112,849	87,373	0	1,200,222	36,139	1,268	37,407	53,720	9,171	62,891	1,300,520
2002	875,260	75,430	0	950,690	36,057	1,247	37,304	47,025	5,420	52,445	1,040,439
2001	752,211	60,842	772	813,825	4,519	1,207	5,726	42,713	1,181	43,894	863,445
2000	599,999	61,495	1,165	662,659	6,778	1,298	8,076	35,207	780	35,987	706,722
1999	586,069	51,474	1,212	638,755	7,159	1,010	8,169	31,518	703	32,221	679,145
1998	545,680	56,903	98	602,681	5,340	587	5,927	28,378	157	28,535	637,143
1997	483,982	70,106	7	554,095	3,872	213	4,085	20,824	134	20,958	579,138
1996	460,866	65,682	9	526,557	4,402	191	4,593	16,912	111	17,023	548,173
1995	431,755	63,436	13	495,204	5,043	91	5,134	12,579	313	12,892	513,230
1994	415,692	55,780	18	471,490	5,628	0	5,628	8,908	319	9,227	486,345
1993	405,383	49,987	28	455,398	7,549	0	7,549	8,034	325	8,359	471,306
1992	360,619	45,718	43	406,380	9,438	0	9,438	8,295	331	8,626	424,444
1991	290,038	45,110	89	335,237	11,112	0	11,112	8,599	336	8,935	355,284
1990	225,981	42,443	121	268,545	11,380	0	11,380	7,807	343	8,150	288,075
1989	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	216,512
1988	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	170,097
1987											135,734
1986											95,568
1985											54,552
1984											35,738
1983											25,121
1982											14,450
1981											717

Source: Fannie Mae

[1] Unpaid principal balance of Fannie Mae MBS held by third-party investors. Includes guaranteed whole loan REMICs and private-label wraps not included in grantor trusts. The principal balance of resecuritized Fannie Mae MBS is included only once.

Table 5. Fannie Mae Mortgage Assets Detail

End of Period	($ in Millions)				
	Whole Loans[1,2] ($)	Fannie Mae Securities[1,3] ($)	Other Mortgage-Related Securities[1,3,4] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Fair-Value Adjustments on Securities and Loans[5] ($)	Total Mortgage Assets ($)
4Q09	416,543	220,245	132,464	(23,981)	745,271
3Q09	424,538	215,571	152,818	(17,505)	775,422
2Q09	426,710	234,632	134,914	(23,239)	773,017
1Q09	436,369	223,024	130,148	(24,327)	765,214
Annual Data					
2009	416,543	220,245	132,464	(23,981)	745,271
2008	429,493	228,950	133,753	(24,207)	767,989
2007	403,577	180,163	144,163	(4,283)	723,620
2006	383,045	199,644	146,243	(2,498)	726,434
2005	366,680	234,451	136,758	(1,086)	736,803
2004	400,157	344,404	172,648	7,985	925,194
2003	397,633	405,922	105,313	10,721	919,589
2002	323,244	380,383	96,152	20,848	820,627
2001	167,405	431,776	109,270	(2,104)	706,347
2000	152,634	351,066	106,551	(2,520)	607,731
1999	149,231	281,714	93,122	(964)	523,103
1998	155,779	197,375	61,361	919	415,434
1997	160,102	130,444	26,132	(86)	316,592
1996	167,891	102,607	16,554	(525)	286,528
1995	171,481	69,729	12,301	(643)	252,868
1994	170,909	43,998	7,150	(1,242)	220,815
1993	163,149	24,219	3,493	(692)	190,169
1992	134,597	20,535	2,987	(1,859)	156,260
1991	109,251	16,700	3,032	(2,304)	126,679
1990	101,797	11,758	3,073	(2,562)	114,066
1989	95,729	11,720	3,272	(2,740)	107,981
1988	92,220	8,153	2,640	(2,914)	100,099
1987	89,618	4,226	2,902	(3,081)	93,665
1986	94,167	1,606	2,060	(3,710)	94,123
1985	97,421	435	793	(4,040)	94,609
1984	87,205	477	427	(3,974)	84,135
1983	77,983	Not Available	273	(3,009)	75,247
1982	71,777	Before 1984	37	(2,458)	69,356
1981	61,411		1	(1,783)	59,629
1980	57,326		1	(1,738)	55,589
1979	51,096		1	(1,320)	49,777
1978	43,315		Not Available	(1,212)	42,103
1977	34,377		Before 1979	(1,125)	33,252
1976	32,937			(1,162)	31,775
1975	31,916			(1,096)	30,820
1974	29,708			(1,042)	28,666
1973	24,459			(870)	23,589
1972	20,326			(674)	19,652
1971	18,515			(629)	17,886

Source: Fannie Mae

1 Unpaid principal balance.

2 Beginning with 2002, includes mortgage-related securities consolidated as loans as of period end. For 1999, 2000, and 2001, includes certain loans held for investment that were classified as nonmortgage investments.

3 Beginning with 2002, excludes mortgage-related securities consolidated as loans as of period end.

4 Includes mortgage revenue bonds.

5 Includes unamortized premiums, discounts, deferred adjustments, and fair-value adjustments on securities and loans. Beginning in 2002, amounts include fair-value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes the allowance for loan losses on loans held for investment.

Table 5a. Fannie Mae Mortgage Assets Detail – Whole Loans

End of Period	Whole Loans ($ in Millions)[1]								
	Single-Family					Multifamily			Total Whole Loans ($)
	Conventional								
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Total FHA/VA/RD[3] ($)	Conventional ($)	FHA/RD ($)	Total ($)	
4Q09	208,915	34,602	213	243,730	52,399	119,829	585	120,414	416,543
3Q09	214,635	35,777	207	250,619	52,133	121,170	616	121,786	424,538
2Q09	216,744	37,796	203	254,743	51,173	120,150	644	120,794	426,710
1Q09	226,652	42,167	209	269,028	48,167	118,501	673	119,174	436,369
Annual Data									
2009	208,915	34,602	213	243,730	52,399	119,829	585	120,414	416,543
2008	223,881	44,157	215	268,253	43,799	116,742	699	117,441	429,493
2007	240,090	43,278	261	283,629	28,202	90,931	815	91,746	403,577
2006	255,490	46,820	287	302,597	20,106	59,374	968	60,342	383,045
2005	261,214	38,331	220	299,765	15,036	50,731	1,148	51,879	366,680
2004	307,048	38,350	177	345,575	10,112	43,396	1,074	44,470	400,157
2003	335,812	19,155	233	355,200	7,284	33,945	1,204	35,149	397,633
2002	282,899	12,142	416	295,457	6,404	19,485	1,898	21,383	323,244
2001	140,454	10,427	917	151,798	5,069	8,987	1,551	10,538	167,405
2000	125,786	13,244	480	139,510	4,763	6,547	1,814	8,361	152,634
1999	130,614	6,058	176	136,848	4,472	5,564	2,347	7,911	149,231
1998	135,351	7,633	206	143,190	4,404	5,590	2,595	8,185	155,779
1997	134,543	10,389	268	145,200	4,631	7,388	2,883	10,271	160,102
1996	137,507	12,415	323	150,245	4,739	9,756	3,151	12,907	167,891
1995	137,032	14,756	423	152,211	4,780	11,175	3,315	14,490	171,481
1994	133,882	16,475	537	150,894	4,965	11,681	3,369	15,050	170,909
1993	123,308	19,175	772	143,255	5,305	11,143	3,446	14,589	163,149
1992	91,500	22,637	1,355	115,492	6,097	9,407	3,601	13,008	134,597
1991	69,130	19,763	2,046	90,939	6,962	7,641	3,709	11,350	109,251
1990	61,873	19,558	1,851	83,282	8,524	6,142	3,849	9,991	101,797
1989	55,638	20,751	1,614	78,003	9,450	3,926	4,350	8,276	95,729
1988	53,090	20,004	1,561	74,655	10,480	2,699	4,386	7,085	92,220
1987	55,913	13,702	1,421	71,036	11,652	2,448	4,482	6,930	89,618
1986	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	94,167
1985	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	97,421
1984									87,205
1983									77,983
1982									71,777
1981									61,411
1980									57,326
1979									51,096
1978									43,315
1977									34,377
1976									32,937
1975									31,916
1974									29,708
1973									24,459
1972									20,326
1971									18,515

Source: Fannie Mae

1 Unpaid principal balance. Beginning with 2002, includes mortgage-related securities consolidated as loans as of period end. For 1999, 2000, and 2001, includes certain loans held for investment that were classified as nonmortgage investments.

2 Includes balloon and energy loans.

3 Includes loans guaranteed by USDA Rural Development programs.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 1, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)[1]													
	Fannie Mae Securities ($)				Others' Securities									
	Single-Family				Freddie Mac				Ginnie Mae					
					Single-Family				Single-Family					
	Fixed-Rate ($)	Adjustable-Rate ($)	Multifamily ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multifamily ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multifamily ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Total Others' Securities ($)[2]
4Q09	203,577	16,272	396	220,245	29,783	11,607	0	41,390	1,119	137	21	1,277	75,344	118,011
3Q09	197,812	17,361	398	215,571	46,799	12,359	0	59,158	1,280	141	21	1,442	77,471	138,071
2Q09	215,546	18,684	402	234,632	25,817	13,302	0	39,119	1,235	145	21	1,401	79,375	119,895
1Q09	202,964	19,651	409	223,024	17,757	14,208	0	31,965	1,306	149	21	1,476	81,422	114,863
Annual Data														
2009	203,577	16,272	396	220,245	29,783	11,607	0	41,390	1,119	137	21	1,277	75,344	118,011
2008	207,867	20,637	446	228,950	18,420	14,963	0	33,383	1,343	153	21	1,517	83,406	118,306
2007	158,863	20,741	559	180,163	16,954	14,425	0	31,379	1,575	34	50	1,659	94,810	127,848
2006	194,702	4,342	600	199,644	17,304	12,773	0	30,077	1,905	0	56	1,961	97,281	129,319
2005	230,546	3,030	875	234,451	18,850	9,861	0	28,711	2,273	0	57	2,330	86,915	117,956
2004	339,138	3,869	1,397	344,404	29,328	8,235	0	37,563	4,131	1	68	4,200	108,809	150,572
2003	400,863	3,149	1,910	405,922	30,356	558	0	30,914	6,993	0	68	7,061	46,979	84,954
2002	373,958	3,827	2,598	380,383	32,617	207	0	32,824	15,436	0	85	15,521	28,157	76,502
2001	417,796	5,648	8,332	431,776	42,516	287	26	42,829	18,779	1	109	18,889	29,175	90,893
2000	Not Available	Not Available	Not Available	351,066	Not Available	Not Available	Not Available	33,290	Not Available	Not Available	Not Available	23,768	34,266	91,324
1999	Before 2001	Before 2001	Before 2001	281,714	Before 2001	Before 2001	Before 2001	25,577	Before 2001	Before 2001	Before 2001	23,701	31,673	80,951
1998				197,375				23,453				8,638	19,585	51,676
1997				130,444				5,262				7,696	5,554	18,512
1996				102,607				3,623				4,780	1,486	9,889
1995				69,729				3,233				2,978	747	6,958
1994				43,998				564				3,182	1	3,747
1993				24,219				Not Available				972	2	974
1992				20,535				Before 1994				168	3	171
1991				16,700								180	93	273
1990				11,758								191	352	543
1989				11,720								202	831	1,033
1988				8,153								26	810	836
1987				4,226								Not Available	1,036	1,036
1986				1,606								Before 1988	1,591	1,591
1985				435									Not Available	Not Available
1984				477									Before 1986	Before 1986

Source: Fannie Mae

1 Unpaid principal balance. Beginning with 2002, excludes mortgage-related securities consolidated as loans as of period end.

2 Excludes mortgage revenue bonds.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 2, Mortgage-Related Securities, Private-Label Detail

End of Period	Mortgage-Related Securities ($ in Millions)[1]								
	Private-Label								
	Single-Family								
	Manufactured Housing ($)	Subprime		Alt-A		Other		Multifamily ($)	Total Private-Label ($)
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q09	2,485	391	20,136	7,515	16,990	255	1,849	25,723	75,344
3Q09	2,563	404	21,337	7,724	17,531	262	1,888	25,762	77,471
2Q09	2,647	415	22,188	7,967	18,163	271	1,932	25,792	79,375
1Q09	2,745	428	23,110	8,239	18,833	279	1,972	25,816	81,422
Annual Data									
2009	2,485	391	20,136	7,515	16,990	255	1,849	25,723	75,344
2008	2,840	438	24,113	8,444	19,414	286	2,021	25,850	83,406
2007	3,316	503	31,537	9,221	23,254	319	1,187	25,473	94,810
2006	3,902	268	46,608	10,722	24,402	376	1,282	9,721	97,281
2005	4,622	431	46,679	11,848	21,203	634	1,455	43	86,915
2004	5,461	889	73,768	11,387	14,223	2,535	487	59	108,809
2003	6,522	1,437	27,738	8,429	383	1,944	428	98	46,979
2002	9,583	2,870	6,534	3,905	20	3,773	1,325	147	28,157
2001	10,708	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	299	29,175
2000	Not Available	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Not Available	34,266
1999	Before 2001							Before 2001	31,673
1998									19,585
1997									5,554
1996									1,486
1995									747
1994									1
1993									2
1992									3
1991									93
1990									352
1989									831
1988									810
1987									1,036
1986									1,591

Source: Fannie Mae

[1] Unpaid principal balance.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 3, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)		($ in Millions)	
	Mortgage Revenue Bonds[1] ($)	Total Mortgage-Related Securities[1] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, & Fair-Value Adjustments on Securities and Loans[2] ($)	Total Mortgage Assets ($)
4Q09	14,453	352,709	(23,981)	745,271
3Q09	14,747	368,389	(17,505)	775,422
2Q09	15,019	369,546	(23,239)	773,017
1Q09	15,285	353,172	(24,327)	765,214
Annual Data				
2009	14,453	352,709	(23,981)	745,271
2008	15,447	362,703	(24,207)	767,989
2007	16,315	324,326	(4,283)	723,620
2006	16,924	345,887	(2,498)	726,434
2005	18,802	371,209	(1,086)	736,803
2004	22,076	517,052	7,985	925,194
2003	20,359	511,235	10,721	919,589
2002	19,650	476,535	20,848	820,627
2001	18,377	541,046	(2,104)	706,347
2000	15,227	457,617	(2,520)	607,731
1999	12,171	374,836	(964)	523,103
1998	9,685	258,736	919	415,434
1997	7,620	156,576	(86)	316,592
1996	6,665	119,161	(525)	286,527
1995	5,343	82,030	(643)	252,868
1994	3,403	51,148	(1,242)	220,815
1993	2,519	27,712	(692)	190,169
1992	2,816	23,522	(1,859)	156,260
1991	2,759	19,732	(2,304)	126,679
1990	2,530	14,831	(2,562)	114,066
1989	2,239	14,992	(2,740)	107,981
1988	1,804	10,793	(2,914)	100,099
1987	1,866	7,128	(3,081)	93,665
1986	469	Not Available Before 1987	(3,710)	94,123
1985	Not Available Before 1986		(4,040)	95,250
1984			(3,974)	84,695
1983			(3,009)	75,782
1982			(2,458)	69,842
1981			(1,783)	59,949
1980			(1,738)	55,878
1979			(1,320)	49,777
1978			(1,212)	42,103
1977			(1,125)	33,252
1976			(1,162)	31,775
1975			(1,096)	30,821
1974			(1,042)	28,665
1973			(870)	23,579
1972			(674)	19,650
1971			(629)	17,886

Source: Fannie Mae

1 Unpaid principal balance.

2 Includes unamortized premiums, discounts, deferred adjustments, and fair-value adjustments on securities and loans. Beginning in 2002, amounts include fair-value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes the allowance for loan losses on loans held for investment.

Table 6. Fannie Mae Financial Derivatives

End of Period	Financial Derivatives - Notional Amount Outstanding ($ in Millions)						
	Interest Rate Swaps[1] ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Mandatory Mortgage Purchase & Sell Commitments ($)	Other ($)	Total ($)
4Q09	661,990	7,000	1,537	174,680	121,947	0	967,154
3Q09	787,825	7,000	1,498	175,530	118,051	0	1,089,904
2Q09	1,245,196	3,000	1,431	171,030	174,183	0	1,594,840
1Q09	1,191,236	500	1,222	174,780	127,906	0	1,495,644
Annual Data							
2009	661,990	7,000	1,537	174,680	121,947	0	967,154
2008	1,023,384	500	1,652	173,060	71,236	0	1,269,832
2007	671,274	2,250	2,559	210,381	55,366	0	941,830
2006	516,571	14,000	4,551	210,271	39,928	0	785,321
2005	317,470	33,000	5,645	288,000	39,194	0	683,309
2004	256,216	104,150	11,453	318,275	40,600	0	730,694
2003	598,288	130,350	5,195	305,175	43,560	0	1,082,568
2002	253,211	122,419	3,932	275,625	Not Available Before 2003	0	655,187
2001	299,953	75,893	8,493	148,800		0	533,139
2000	227,651	33,663	9,511	53,915		0	324,740
1999	192,032	28,950	11,507	41,081		1,400	274,970
1998	142,846	14,500	12,995	13,481		3,735	187,557
1997	149,673	100	9,968	0		1,660	161,401
1996	158,140	300	2,429	0		350	161,219
1995	125,679	300	1,224	29		975	128,207
1994	87,470	360	1,023	0		1,465	90,317
1993	49,458	360	1,023	0		1,425	52,265
1992	24,130	0	1,177	0		1,350	26,658
1991	9,100	0	Not Available Before 1992	50		1,050	10,200
1990	4,800	0		25		1,700	6,525

Source: Fannie Mae

1 Beginning in 2002, includes MBS options, swap credit enhancements, and forward-starting debt.

Table 7. Fannie Mae Nonmortgage Investments

End of Period	Nonmortgage Investments ($ in Millions)[1]					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities ($)	Repurchase Agreements[2] ($)	Commercial Paper and Corporate Debt[3] ($)	Other[4] ($)	Total ($)
4Q09	44,900	8,515	4,000	364	3	57,782
3Q09	21,810	9,263	12,999	521	3	44,596
2Q09	14,310	9,808	11,500	935	5,003	41,556
1Q09	32,910	10,270	15,000	3,725	2,003	63,908
Annual Data						
2009	44,900	8,515	4,000	364	3	57,782
2008	45,910	10,598	8,000	6,037	1,005	71,550
2007	43,510	15,511	5,250	13,515	9,089	86,875
2006	9,410	18,914	0	27,604	1,055	56,983
2005	8,900	19,190	0	16,979	947	46,016
2004	3,860	25,644	70	16,435	1,829	47,839
2003	12,575	26,862	111	17,700	2,270	59,518
2002	150	22,312	181	14,659	2,074	39,376
2001	16,089	20,937	808	23,805	4,343	65,982
2000	7,539	17,512	87	8,893	18,316	52,347
1999	4,837	19,207	122	1,723	11,410	37,299
1998	7,926	20,993	7,556	5,155	16,885	58,515
1997	19,212	16,639	6,715	11,745	10,285	64,596
1996	21,734	14,635	4,667	6,191	9,379	56,606
1995	19,775	9,905	10,175	8,629	8,789	57,273
1994	17,593	3,796	9,006	7,719	8,221	46,335
1993	4,496	3,557	4,684	0	8,659	21,396
1992	6,587	4,124	3,189	0	5,674	19,574
1991	2,954	2,416	2,195	0	2,271	9,836
1990	5,329	1,780	951	0	1,808	9,868
1989	5,158	1,107	0	0	2,073	8,338
1988	4,125	481	0	0	683	5,289
1987	2,559	25	0	0	884	3,468
1986	1,530	0	0	0	245	1,775
1985	1,391	0	0	0	75	1,466
1984	1,575	0	0	0	265	1,840
1983	9	0	0	0	227	236
1982	1,799	0	0	0	631	2,430
1981	Not Available	Not Available	Not Available	Not Available	Not Available	1,047
1980	Before 1982	Before 1982	Before 1982	Before 1982	Before 1982	1,556
1979						843
1978						834
1977						318
1976						245
1975						239
1974						466
1973						227
1972						268
1971						349

Source: Fannie Mae

1 Data reflect unpaid principal balance net of unamortized purchase premium, discounts and cost basis adjustments, fair-value adjustments, and impairments on available-for-sale and trading securities. Prior to 1982, the majority of nonmortgage investments consisted of U.S. government and agency securities.

2 Since 2005, advances to lenders are not included in the data. Amounts for periods prior to 2005 may include or consist of advances to lenders. Includes tri-party repurchase agreements.

3 Includes commercial paper, floating-rate notes, taxable auction notes, corporate bonds and auction-rate preferred stock. Starting with 2006, medium-term notes previously reported in "Other" are included in commercial paper.

4 Includes Yankee and domestic certificates of deposit (CDs).

Table 8. Fannie Mae Mortgage Asset Quality

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[1] (%)	Multifamily Delinquency Rate[2] (%)	Credit Losses as a Proportion of the Guarantee Book of Business[3, 4] (%)	REO as a Proportion of the Guarantee Book of Business[4] (%)	Credit-Enhanced Outstanding as a Proportion of the Guarantee Book of Business [5] (%)
4Q09	5.38	0.63	0.53	0.30	21.2
3Q09	4.72	0.62	0.48	0.25	22.0
2Q09	3.94	0.51	0.44	0.22	22.7
1Q09	3.15	0.34	0.33	0.22	23.3
Annual Data					
2009	5.38	0.63	0.45	0.30	21.2
2008	2.42	0.30	0.23	0.23	23.7
2007	0.98	0.08	0.05	0.13	23.9
2006	0.65	0.08	0.02	0.09	22.3
2005	0.79	0.32	0.01	0.08	21.8
2004	0.63	0.11	0.01	0.07	20.5
2003	0.60	0.29	0.01	0.06	22.6
2002	0.57	0.08	0.01	0.05	26.8
2001	0.55	0.27	0.01	0.04	34.2
2000	0.45	0.07	0.01	0.05	40.4
1999	0.47	0.11	0.01	0.06	20.9
1998	0.56	0.23	0.03	0.08	17.5
1997	0.62	0.37	0.04	0.10	12.8
1996	0.58	0.68	0.05	0.11	10.5
1995	0.56	0.81	0.05	0.08	10.6
1994	0.47	1.21	0.06	0.10	10.2
1993	0.48	2.34	0.04	0.10	10.6
1992	0.53	2.65	0.04	0.09	15.6
1991	0.64	3.62	0.04	0.07	22.0
1990	0.58	1.70	0.06	0.09	25.9
1989	0.69	3.20	0.07	0.14	Not Available Before 1990
1988	0.88	6.60	0.11	0.15	
1987	1.12	Not Available Before 1988	0.11	0.18	
1986	1.38		0.12	0.22	
1985	1.48		0.13	0.32	
1984	1.65		0.09	0.33	
1983	1.49		0.05	0.35	
1982	1.41		0.01	0.20	
1981	0.96		0.01	0.13	
1980	0.90		0.01	0.09	
1979	0.56		0.02	0.11	
1978	0.55		0.02	0.18	
1977	0.46		0.02	0.26	
1976	1.58		0.03	0.27	
1975	0.56		0.03	0.51	
1974	0.51		0.02	0.52	
1973	Not Available Before 1974		0.00	0.61	
1972			0.02	0.98	
1971			0.01	0.59	

Source: Fannie Mae

1 Single-family loans are seriously delinquent when the borrower has missed three or more consecutive monthly payments and the loan has not been brought current. Rate is calculated using the number of conventional single-family loans owned and backing Fannie Mae MBS. Includes loans referred to foreclosure proceedings but not yet foreclosed. Prior to 1988, all data included all seriously delinquent loans for which Fannie Mae had primary risk of loss. Beginning with 1998, data included all seriously delinquent conventional loans owned and backing Fannie Mae MBS with and without primary mortgage insurance and/or credit enhancement. Data prior to 1992 include loans and securities in relief or bankruptcy, even if the loans were less than 90 days delinquent, calculated based on number of loans.

2 Prior to 1998, data include multifamily loans for which Fannie Mae had primary risk of loss. Beginning in 1998, data included all multifamily loans and securities 60 days or more past due. For 1998-2001, rate is calculated using the mortgage credit book of business as the denominator. Beginning in 2002, rate is calculated using unpaid principal balance of delinquent multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities as the denominator.

3 Credit losses are charge-offs, net of recoveries and foreclosed property expense (income). Average balances used to calculate ratios subsequent to 1994. Quarterly data are annualized. Beginning in 2005, credit losses exclude the impact of fair-value losses of credit impaired loans acquired from MBS trusts. Beginning in 2008, credit losses also exclude the impact of HomeSaver Advance fair-value losses.

4 Guarantee book of business refers to the sum of the unpaid principal balance of (1) mortgage loans held as investments; (2) Fannie Mae MBS held as investments; (3) Fannie Mae MBS held by third parties; and (4) credit enhancements that Fannie Mae provides on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held as investments that Fannie Mae does not guarantee. Prior to 2005, the ratio was based on the mortgage credit book of business, which includes non-Fannie Mae mortgage-related securities held as investments that are not guaranteed.

5 Beginning in 2000, credit-enhanced outstanding is expanded to include primary mortgage insurance. Amounts for periods prior to 2000 reflect proportion of the mortgage assets portfolio with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 9. Fannie Mae Capital

End of Period	Capital ($ in Millions)[1]									
	Minimum Capital Requirement			Risk-Based Capital Requirement						
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Minimum Capital Surplus (Deficit)[3] ($)	Total Capital[4] ($)	Risk-Based Capital Requirement[5] ($)	Risk-Based Capital Surplus (Deficit)[6] ($)	Market Capitalization[7] ($)	Core Capital/Total Assets (%)	Core Capital/Total MBS Outstanding Plus Total Assets (%)	Common Share Dividend Payout Rate[8] (%)
4Q09	(74,540)	33,057	(107,597)	N/A	N/A	N/A	1,314	(8.58)	(2.26)	N/A
3Q09	(58,226)	33,504	(91,730)	N/A	N/A	N/A	1,687	(6.54)	(1.76)	N/A
2Q09	(38,480)	33,878	(72,358)	N/A	N/A	N/A	645	(4.22)	(1.17)	N/A
1Q09	(31,848)	33,912	(65,760)	N/A	N/A	N/A	773	(3.46)	(0.98)	N/A
Annual Data										
2009	(74,540)	33,057	(107,597)	N/A	N/A	N/A	1,314	(8.58)	(2.26)	N/A
2008	(8,641)	33,552	(42,193)	N/A	N/A	N/A	825	(0.95)	(0.27)	N/M
2007	45,373	31,927	13,446	48,658	24,700	23,958	38,946	5.14	1.51	N/M
2006	41,950	29,359	12,591	42,703	26,870	15,833	57,735	4.97	1.60	32.4
2005	39,433	28,233	11,200	40,091	12,636	27,455	47,373	4.73	1.62	17.2
2004	34,514	32,121	2,393	35,196	10,039	25,157	69,010	3.38	1.42	42.1
2003	26,953	31,816	(4,863)	27,487	27,221	266	72,838	2.64	1.16	20.8
2002	20,431	27,688	(7,257)	20,831	17,434	3,397	63,612	2.26	1.05	34.5
2001	25,182	24,182	1,000	25,976	Not Applicable	Not Applicable	79,281	3.15	1.51	23.0
2000	20,827	20,293	533	21,634	Before 2002	Before 2002	86,643	3.08	1.51	26.0
1999	17,876	17,770	106	18,677			63,651	3.11	1.43	28.8
1998	15,465	15,334	131	16,257			75,881	3.19	1.38	29.5
1997	13,793	12,703	1,090	14,575			59,167	3.52	1.42	29.4
1996	12,773	11,466	1,307	13,520			39,932	3.64	1.42	30.4
1995	10,959	10,451	508	11,703			33,812	3.46	1.32	34.6
1994	9,541	9,415	126	10,368			19,882	3.50	1.26	30.8
1993	8,052	7,064	988	8,893			21,387	3.71	1.17	26.8
1992	Not Applicable	Not Applicable	Not Applicable	Not Applicable			20,874	Not Applicable	Not Applicable	23.2
1991	Before 1993	Before 1993	Before 1993	Before 1993			18,836	Before 1993	Before 1993	21.3
1990							8,490			14.7
1989							8,092			12.8
1988							3,992			11.2
1987							2,401			11.7
1986							3,006			8.0
1985							1,904			30.1
1984							1,012			N/A
1983							1,514			13.9
1982							1,603			N/A
1981							502			N/A
1980							702			464.2
1979							Not Available			45.7
1978							Before 1980			30.3
1977										31.8
1976										33.6
1975										31.8
1974										29.6
1973										18.1
1972										15.2
1971										18.7

Sources: Fannie Mae and FHFA

N/A = not applicable N/M = not meaningful

1 On October 9, 2008, FHFA suspended capital classifications of Fannie Mae. As of the fourth quarter of 2008, neither the existing statutory minimum nor the FHFA-directed regulatory capital requirements are binding and will not be binding during conservatorship.

2 Beginning in the third quarter of 2005, Fannie Mae was required to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. That requirement was reduced to 20 percent as of the first quarter of 2008 and to 15 percent as of the second quarter of 2008. The minimum capital requirement and minimum capital surplus numbers stated in this table do not reflect the additional capital requirements.

3 Minimum capital surplus is the difference between core capital and minimum capital requirement.

4 Total capital is core capital plus the total allowance for loan losses and guarantee liability for MBS, less any specific loss allowances.

5 Risk-based capital requirement is the amount of total capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. For 2004 through 2006, the requirements were calculated based on originally reported, not restated or revised, financial results.

6 The difference between total capital and the risk-based capital requirement. For 2004 through 2006, the difference reflects restated and revised total capital rather than total capital originally reported by Fannie Mae and used by FHFA to make capital classifications. FHFA is not reporting on risk-based capital levels during conservatorship.

7 Stock price at the end of the period multiplied by the number of outstanding common shares.

8 Common dividends declared during the period divided by net income available to common stockholders for the period.

Table 10. Freddie Mac Mortgage Purchases

Period	Business Activity ($ in Millions)			
	Purchases[1]			
	Single-Family ($)	Multifamily ($)	Total Mortgages[2] ($)	Mortgage-Related Securities[3] ($)
4Q09	90,676	4,658	95,334	16,745
3Q09	120,770	3,628	124,398	44,191
2Q09	150,488	4,447	154,935	63,127
1Q09	112,614	3,824	116,438	115,588
Annual Data				
2009	474,548	16,557	491,105	239,651
2008	357,585	23,972	381,557	297,614
2007	466,066	21,645	487,711	231,039
2006	351,270	13,031	364,301	241,205
2005	381,673	11,172	392,845	325,575
2004	354,812	12,712	367,524	223,299
2003	701,483	15,292	716,775	385,078
2002	533,194	10,654	543,848	299,674
2001	384,124	9,510	393,634	248,466
2000	168,013	6,030	174,043	91,896
1999	232,612	7,181	239,793	101,898
1998	263,490	3,910	267,400	128,446
1997	115,160	2,241	117,401	35,385
1996	122,850	2,229	125,079	36,824
1995	89,971	1,565	91,536	39,292
1994	122,563	847	123,410	19,817
1993	229,051	191	229,242	Not Available
1992	191,099	27	191,126	Before 1994
1991	99,729	236	99,965	
1990	74,180	1,338	75,518	
1989	76,765	1,824	78,589	
1988	42,884	1,191	44,075	
1987	74,824	2,016	76,840	
1986	99,936	3,538	103,474	
1985	42,110	1,902	44,012	
1984	Not Available	Not Available	21,885	
1983	Before 1985	Before 1985	22,952	
1982			23,671	
1981			3,744	
1980			3,690	
1979			5,716	
1978			6,524	
1977			4,124	
1976			1,129	
1975			1,716	
1974			2,185	
1973			1,334	
1972			1,265	
1971			778	

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Consists of loans purchased from lenders. Excludes purchases of non-Freddie Mac MBS as well as Freddie Mac MBS repurchased and held for investment.

3 Not included in total mortgages. For 2002 through the current period, amounts include non-Freddie Mac mortgage-related securities as well as Freddie Mac MBS repurchased and held for investment. For years prior to 2002, amounts exclude structured securities backed by Ginnie Mae MBS. Activity does not include dollar roll transactions.

Table 10a. Freddie Mac Mortgage Purchases Detail by Type of Loan

Period	Purchases ($ in Millions)[1]											
	Single-Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA			Total Single-Family Mortgages ($)				
	Fixed-Rate[2] ($)	Adjustable-Rate[3] ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)		Conventional ($)	FHA/RD ($)	Total Multi-family Mortgages ($)	
4Q09	88,315	2,015	0	90,330	346	0	346	90,676	4,658	0	4,658	95,334
3Q09	119,475	956	0	120,431	339	0	339	120,770	3,628	0	3,628	124,398
2Q09	149,740	271	0	150,011	477	0	477	150,488	4,447	0	4,447	154,935
1Q09	112,023	373	0	112,396	218	0	218	112,614	3,824	0	3,824	116,438
Annual Data												
2009	469,553	3,615	0	473,168	1,380	0	1,380	474,548	16,557	0	16,557	491,105
2008	327,006	30,014	0	357,020	565	0	565	357,585	23,972	0	23,972	381,557
2007	387,760	78,149	0	465,909	157	0	157	466,066	21,645	0	21,645	487,711
2006	272,875	77,449	0	350,324	946	0	946	351,270	13,031	0	13,031	364,301
2005	313,842	67,831	0	381,673	0	0	0	381,673	11,172	0	11,172	392,845
2004	293,830	60,663	0	354,493	319	0	319	354,812	12,712	0	12,712	367,524
2003	617,796	82,270	0	700,066	1,417	0	1,417	701,483	15,292	0	15,292	716,775
2002	468,901	63,448	0	532,349	845	0	845	533,194	10,654	0	10,654	543,848
2001	353,056	30,780	0	383,836	288	0	288	384,124	9,507	3	9,510	393,634
2000	145,744	21,201	0	166,945	1,068	0	1,068	168,013	6,030	0	6,030	174,043
1999	224,040	7,443	0	231,483	1,129	0	1,129	232,612	7,181	0	7,181	239,793
1998	256,008	7,384	0	263,392	98	0	98	263,490	3,910	0	3,910	267,400
1997	106,174	8,950	0	115,124	36	0	36	115,160	2,241	0	2,241	117,401
1996	116,316	6,475	0	122,791	59	0	59	122,850	2,229	0	2,229	125,079
1995	75,867	14,099	0	89,966	5	0	5	89,971	1,565	0	1,565	91,536
1994	105,902	16,646	0	122,548	15	0	15	122,563	847	0	847	123,410
1993	208,322	20,708	1	229,031	20	0	20	229,051	191	0	191	229,242
1992	175,515	15,512	7	191,034	65	0	65	191,099	27	0	27	191,126
1991	91,586	7,793	206	99,585	144	0	144	99,729	236	0	236	99,965
1990	56,806	16,286	686	73,778	402	0	402	74,180	1,338	0	1,338	75,518
1989	57,100	17,835	1,206	76,141	624	0	624	76,765	1,824	0	1,824	78,589
1988	34,737	7,253	59	42,049	835	0	835	42,884	1,191	0	1,191	44,075
1987	69,148	4,779	69	73,996	828	0	828	74,824	2,016	0	2,016	76,840
1986	96,105	2,262	90	98,457	1,479	0	1,479	99,936	3,538	0	3,538	103,474
1985	40,226	605	34	40,865	1,245	0	1,245	42,110	1,902	0	1,902	44,012

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans traded but not yet settled.

2 For 2002 through the current period, includes loans guaranteed by USDA Rural Development programs.

3 For 2001 through the current period, includes balloons/reset mortgages.

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities – Part 1

Period	Purchases ($ in Millions)[1]														
	Freddie Mac Securities				Others' Securities										
	Single-Family				Fannie Mae				Ginnie Mae						
					Single-Family				Single-Family						
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities[2] ($)
4Q09	7,839	45	0	7,884	3,502	28	0	3,530	0	0	0	0	5,330	1	16,745
3Q09	38,873	4,852	0	43,725	269	106	0	375	0	0	0	0	7	84	44,191
2Q09	46,331	268	0	46,599	9,418	1,378	0	10,796	0	0	0	0	5,713	19	63,127
1Q09	83,931	249	0	84,180	30,109	1,185	0	31,294	0	0	27	27	11	76	115,588
	Annual Data														
2009	176,974	5,414	0	182,388	43,298	2,697	0	45,995	0	0	27	27	11,061	180	239,651
2008	192,701	26,344	111	219,156	49,534	18,519	0	68,053	0	0	8	8	10,316	81	297,614
2007	111,976	26,800	2,283	141,059	2,170	9,863	0	12,033	0	0	0	0	76,134	1,813	231,039
2006	76,378	27,146	0	103,524	4,259	8,014	0	12,273	0	0	0	0	122,230	3,178	241,205
2005	106,682	29,805	0	136,487	2,854	3,368	0	6,222	64	0	0	64	179,962	2,840	325,575
2004	72,147	23,942	146	96,235	756	3,282	0	4,038	0	0	0	0	121,082	1,944	223,299
2003	Not Available	Not Available	Not Available	266,989	Not Available	Not Available	Not Available	47,806	Not Available	Not Available	Not Available	166	69,154	963	385,078
2002	Before 2004	Before 2004	Before 2004	192,817	Before 2004	Before 2004	Before 2004	45,798	Before 2004	Before 2004	Before 2004	820	59,376	863	299,674
2001				157,339				64,508				1,444	24,468	707	248,466
2000				58,516				18,249				3,339	10,304	1,488	91,896
1999				69,219				12,392				3,422	15,263	1,602	101,898
1998				107,508				3,126				319	15,711	1,782	128,446
1997				31,296				897				326	1,494	1,372	35,385
1996				33,338				Not Available				Not Available	Not Available	Not Available	36,824
1995				32,534				Before 1997				Before 1997	Before 1997	Before 1997	39,292
1994				19,817											19,817

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage-related securities traded but not yet settled.

2 For years prior to 2002, amounts exclude structured securities backed by Ginnie Mae MBS.

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities – Part 2, Private-Label Detail

Period	Purchases ($ in Millions)[1]								
	Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Subprime		Alt-A[2]		Other[3]			
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q09	0	0	0	0	0	3,930	0	1,400	5,330
3Q09	0	0	0	0	0	7	0	0	7
2Q09	0	0	0	0	0	4,728	0	985	5,713
1Q09	0	0	0	0	0	11	0	0	11
Annual Data									
2009	0	0	0	0	0	8,676	0	2,385	11,061
2008	0	60	46	0	618	8,175	0	1,417	10,316
2007	127	843	42,824	702	9,306	48	0	22,284	76,134
2006	0	116	74,645	718	29,828	48	0	16,875	122,230
2005	0	Not Available Before 2006	Not Available Before 2006	Not Available Before 2006	Not Available Before 2006	2,191	162,931	14,840	179,962
2004	0					1,379	108,825	10,878	121,082
2003	0					Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	69,154
2002	318								59,376
2001	0								24,468
2000	15								10,304
1999	3,293								15,263
1998	1,630								15,711
1997	36								1,494

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage-related securities traded but not yet settled.

2 Includes Alt-A and option ARM private-label mortgage-related security purchases.

3 Includes non-Freddie Mac mortgage-related securities purchased for structured securities as well as nonagency securities purchased and held for investment.

Table 11. Freddie Mac MBS Issuances

Period	Business Activity ($ in Millions)			
	MBS Issuances[1]			
	Single-Family MBS[2] ($)	Multifamily MBS ($)	Total MBS[2] ($)	Multiclass MBS[3] ($)
4Q09	91,908	1,539	93,447	21,423
3Q09	122,144	107	122,251	27,889
2Q09	154,810	1,128	155,938	29,033
1Q09	103,599	177	103,776	7,857
Annual Data				
2009	472,461	2,951	475,412	86,202
2008	352,776	5,085	357,861	64,305
2007	467,342	3,634	470,976	133,321
2006	358,184	1,839	360,023	169,396
2005	396,213	1,654	397,867	208,450
2004	360,933	4,175	365,108	215,506
2003	705,450	8,337	713,787	298,118
2002	543,716	3,596	547,312	331,672
2001	387,234	2,357	389,591	192,437
2000	165,115	1,786	166,901	48,202
1999	230,986	2,045	233,031	119,565
1998	249,627	937	250,564	135,162
1997	113,758	500	114,258	84,366
1996	118,932	770	119,702	34,145
1995	85,522	355	85,877	15,372
1994	116,901	209	117,110	73,131
1993	208,724	0	208,724	143,336
1992	179,202	5	179,207	131,284
1991	92,479	0	92,479	72,032
1990	71,998	1,817	73,815	40,479
1989	72,931	587	73,518	39,754
1988	39,490	287	39,777	12,985
1987	72,866	2,152	75,018	0
1986	96,798	3,400	100,198	2,233
1985	37,583	1,245	38,828	2,625
1984	Not Available Before 1985	Not Available Before 1985	18,684	1,805
1983			19,691	1,685
1982			24,169	Not Issued Before 1983
1981			3,526	
1980			2,526	
1979			4,546	
1978			6,412	
1977			4,657	
1976			1,360	
1975			950	
1974			46	
1973			323	
1972			494	
1971			65	

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled. Includes issuance of other credit guarantees for mortgages not in the form of a security.

2 Includes MBS and structured securities backed by non-Freddie Mac mortgage-related securities. For 2002 through the current period, includes structured securities backed by Ginnie Mae MBS. For years prior to 2002, excludes structured securities backed by Ginnie Mae MBS.

3 Includes activity related to multiclass structured securities, primarily REMICs, as well as principal-only strips and other structured securities but excludes resecuritizations of MBS into single-class securities. Amounts are not included in total MBS issuances.

Table 12. Freddie Mac Earnings

Period	Earnings ($ in Millions)						
	Net Interest Income ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[1] ($)	Net Income (Loss) ($)	Return on Equity[2] (%)
4Q09	4,497	743	16.2	463	7,065	(6,472)	N/M
3Q09	4,462	800	17.6	433	7,877	(5,408)	N/M
2Q09	4,255	710	15.8	383	5,674	302	N/M
1Q09	3,859	780	17.4	372	9,221	(9,975)	N/M
Annual Data							
2009	17,073	3,033	16.7	1,651	29,837	(21,553)	N/M
2008	6,796	3,370	18.9	1,505	17,529	(50,119)	N/M
2007	3,099	2,635	16.6	1,674	3,060	(3,094)	(21.0)
2006	3,412	2,393	17.1	1,641	356	2,327	9.8
2005	4,627	2,076	16.6	1,535	347	2,113	8.1
2004	9,137	1,382	17.5	1,550	140	2,937	9.4
2003	9,498	1,653	23.3	1,181	2	4,816	17.7
2002	9,525	1,527	22.2	1,406	126	10,090	47.2
2001	7,448	1,381	23.8	1,024	39	3,158	20.2
2000	3,758	1,243	23.7	825	75	3,666	39.0
1999	2,926	1,019	19.8	655	159	2,223	25.5
1998	2,215	1,019	21.4	578	342	1,700	22.6
1997	1,847	1,082	22.9	495	529	1,395	23.1
1996	1,705	1,086	23.4	440	608	1,243	22.6
1995	1,396	1,087	23.8	395	541	1,091	22.1
1994	1,112	1,108	24.4	379	425	983	23.3
1993	772	1,009	23.8	361	524	786	22.3
1992	695	936	24.7	329	457	622	21.2
1991	683	792	23.7	287	419	555	23.6
1990	619	654	22.4	243	474	414	20.4
1989	517	572	23.4	217	278	437	25.0
1988	492	465	21.5	194	219	381	27.5
1987	319	472	24.2	150	175	301	28.2
1986	299	301	22.4	110	120	247	28.5
1985	312	188	22.1	81	79	208	30.0
1984	213	158	24.7	71	54	144	52.0
1983	125	132	26.2	53	46	86	44.5
1982	30	77	24.5	37	26	60	21.9
1981	34	36	19.5	30	16	31	13.1
1980	54	23	14.3	26	23	34	14.7
1979	55	18	13.2	19	20	36	16.2
1978	37	14	14.9	14	13	25	13.4
1977	31	9	18.9	12	8	21	12.4
1976	18	3	13.6	10	(1)	14	9.5
1975	31	3	24.8	10	11	16	11.6
1974	42	2	25.5	8	33	5	4.0
1973	31	2	32.4	7	15	12	9.9
1972	10	1	39.4	5	4	4	3.5
1971	10	1	Not Available Before 1972	Not Available Before 1972	Not Available Before 1972	6	5.5

Source: Freddie Mac

N/M = not meaningful

[1] For 2002 through the current period, defined as provision for credit losses and real estate owned operations income/expense. For 2000 and 2001, includes only the provision for credit losses.

[2] Ratio computed as annualized net income (loss) available to common stockholders divided by the simple average of beginning and ending common stockholders' equity, net of senior preferred stock and preferred stock (both at redemption value).

Table 13. Freddie Mac Balance Sheet

End of Period	Balance Sheet ($ in Millions)							Mortgage-Backed Securities Outstanding ($ in Millions)[1]	
	Total Assets ($)	Total Mortgage Assets[2] ($)	Nonmortgage Investments ($)	Debt Outstanding ($)	Stockholders' Equity ($)	Core Capital[3] ($)	Fair Value of Net Assets ($)	Total MBS Outstanding ($)	Multiclass MBS Outstanding[4] ($)
4Q09	841,784	716,974	26,271	780,604	4,278	(23,774)	(62,500)	1,495,267	444,823
3Q09	866,644	743,872	28,076	803,781	9,325	(15,034)	(67,700)	1,458,531	449,589
2Q09	892,310	775,954	26,683	836,978	7,546	(8,748)	(70,500)	1,410,646	458,777
1Q09	946,954	811,512	45,659	909,511	(6,288)	(23,401)	(80,900)	1,379,399	478,275
Annual Data									
2009	841,784	716,974	26,271	780,604	4,278	(23,774)	(62,500)	1,495,267	444,823
2008	850,963	748,747	18,944	843,021	(30,731)	(13,174)	(95,600)	1,402,714	517,475
2007	794,368	710,042	41,663	738,557	26,724	37,867	12,600	1,381,863	526,604
2006	804,910	700,002	68,614	744,341	26,914	35,365	31,800	1,122,761	491,696
2005	798,609	709,503	57,324	740,024	25,691	35,043	30,900	974,200	437,668
2004	795,284	664,582	62,027	731,697	31,416	34,106	30,900	852,270	390,516
2003	803,449	660,531	53,124	739,613	31,487	32,416	27,300	752,164	347,833
2002	752,249	589,899	91,871	665,696	31,330	28,990	22,900	729,809	392,545
2001	641,100	503,769	89,849	578,368	19,624	20,181	18,300	653,084	299,652
2000	459,297	385,451	43,521	426,899	14,837	14,380	Not Available	576,101	309,185
1999	386,684	322,914	34,152	360,711	11,525	12,692	Before 2001	537,883	316,168
1998	321,421	255,670	42,160	287,396	10,835	10,715		478,351	260,504
1997	194,597	164,543	16,430	172,842	7,521	7,376		475,985	233,829
1996	173,866	137,826	22,248	156,981	6,731	6,743		473,065	237,939
1995	137,181	107,706	12,711	119,961	5,863	5,829		459,045	246,336
1994	106,199	73,171	17,808	93,279	5,162	5,169		460,656	264,152
1993	83,880	55,938	18,225	49,993	4,437	4,437		439,029	265,178
1992	59,502	33,629	12,542	29,631	3,570	Not Applicable		407,514	218,747
1991	46,860	26,667	9,956	30,262	2,566	Before 1993		359,163	146,978
1990	40,579	21,520	12,124	30,941	2,136			316,359	88,124
1989	35,462	21,448	11,050	26,147	1,916			272,870	52,865
1988	34,352	16,918	14,607	26,882	1,584			226,406	15,621
1987	25,674	12,354	10,467	19,547	1,182			212,635	3,652
1986	23,229	13,093	Not Available	15,375	953			169,186	5,333
1985	16,587	13,547	Before 1987	12,747	779			99,909	5,047
1984	13,778	10,018		10,999	606			70,026	3,214
1983	8,995	7,485		7,273	421			57,720	1,669
1982	5,999	4,679		4,991	296			42,952	Not Issued
1981	6,326	5,178		5,680	250			19,897	Before 1983
1980	5,478	5,006		4,886	221			16,962	
1979	4,648	4,003		4,131	238			15,316	
1978	3,697	3,038		3,216	202			12,017	
1977	3,501	3,204		3,110	177			6,765	
1976	4,832	4,175		4,523	156			2,765	
1975	5,899	4,878		5,609	142			1,643	
1974	4,901	4,469		4,684	126			780	
1973	2,873	2,521		2,696	121			791	
1972	1,772	1,726		1,639	110			444	
1971	1,038	935		915	107			64	

Source: Freddie Mac

1 Based on unpaid principal balances held by third parties and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Excludes allowance for loan losses.

3 The sum of (a) the stated value of outstanding common stock, (b) the stated value of outstanding noncumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings (accumulated deficit) less Treasury stock and senior preferred stock.

4 Amounts are included in total MBS outstanding column.

Table 13a. Freddie Mac Total MBS Outstanding Detail[1]

End of Period	Single-Family Mortgages ($ in Millions)					Multifamily Mortgages ($ in Millions)			($ in Millions)
	Conventional								
	Fixed-Rate[2] ($)	Adjustable-Rate[3] ($)	Seconds[4] ($)	Total ($)	Total FHA/VA[4]	Conventional ($)	FHA/RD ($)	Multifamily Mortgages ($)	Total MBS Outstanding[5] ($)
4Q09	1,364,796	111,550	3	1,476,349	3,544	15,374	0	15,374	1,495,267
3Q09	1,323,135	117,303	3	1,440,441	3,699	14,391	0	14,391	1,458,531
2Q09	1,267,065	125,324	3	1,392,392	3,768	14,486	0	14,486	1,410,646
1Q09	1,227,143	134,807	3	1,361,953	3,844	13,602	0	13,602	1,379,399
Annual Data									
2009	1,364,796	111,550	3	1,476,349	3,544	15,374	0	15,374	1,495,267
2008	1,242,648	142,495	4	1,385,147	3,970	13,597	0	13,597	1,402,714
2007	1,206,495	161,963	7	1,368,465	4,499	8,899	0	8,899	1,381,863
2006	967,580	141,740	12	1,109,332	5,396	8,033	0	8,033	1,122,761
2005	836,023	117,757	19	953,799	6,289	14,112	0	14,112	974,200
2004	736,332	91,474	70	827,876	9,254	15,140	0	15,140	852,270
2003	649,699	74,409	140	724,248	12,157	15,759	0	15,759	752,164
2002	647,603	61,110	5	708,718	12,361	8,730	0	8,730	729,809
2001	609,290	22,525	10	631,825	14,127	7,132	0	7,132	653,084
2000	533,331	36,266	18	569,615	778	5,708	0	5,708	576,101
1999	499,671	33,094	29	532,794	627	4,462	0	4,462	537,883
1998	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	478,351
1997	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	475,985
1996									473,065
1995									459,045
1994									460,656
1993									439,029
1992									407,514
1991									359,163
1990									316,359
1989									272,870
1988									226,406
1987									212,635
1986									169,186
1985									99,909
1984									70,026
1983									57,720
1982									42,952
1981									19,897
1980									16,962
1979									15,316
1978									12,017
1977									6,765
1976									2,765
1975									1,643
1974									780
1973									791
1972									444
1971									64

Source: Freddie Mac

1 Based on unpaid principal balances of mortgage guarantees held by third parties. Excludes MBS held for investment by Freddie Mac.

2 Includes USDA Rural Development programs and other federally guaranteed loans.

3 For 2001 through the current period, includes MBS with underlying mortgages classified as balloons/reset loans.

4 For 2002 through the current period, includes resecuritizations of non-Freddie Mac securities.

5 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled. For 2002 through the current period, amounts include structured securities backed by non-Freddie Mac securities (including Ginnie Mae MBS) and credit guarantees of mortgage loans and mortgage-backed securities held by third parties.

Table 14. Freddie Mac Mortgage Assets Detail

End of Period	($ in Millions)				
	Whole Loans[1] ($)	Freddie Mac Securities[1] ($)	Other Mortgage-Related Securities[1] ($)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities[2] ($)	Total Mortgage Assets[3] ($)
4Q09	138,816	374,615	241,841	(38,298)	716,974
3Q09	131,879	403,490	248,802	(40,299)	743,872
2Q09	130,275	440,478	259,084	(53,883)	775,954
1Q09	126,946	455,421	284,737	(55,592)	811,512
Annual Data					
2009	138,816	374,615	241,841	(38,298)	716,974
2008	111,476	424,524	268,762	(56,015)	748,747
2007	82,158	356,970	281,685	(10,771)	710,042
2006	65,847	354,262	283,850	(3,957)	700,002
2005	61,481	361,324	287,541	(843)	709,503
2004	61,360	356,698	235,203	11,321	664,582
2003	60,270	393,135	192,362	14,764	660,531
2002	63,886	341,287	162,099	22,627	589,899
2001	62,792	308,427	126,420	6,130	503,769
2000	59,240	246,209	80,244	(242)	385,451
1999	56,676	211,198	56,569	(1,529)	322,914
1998	57,084	168,108	29,817	661	255,670
1997	48,454	103,400	Not Available Before 1998	122	164,543
1996	46,504	81,195		71	137,826
1995	43,753	56,006		282	107,706
1994	Not Available Before 1995	30,670		Not Available Before 1995	73,171
1993		15,877			55,938
1992		6,394			33,629
1991		Not Available Before 1992			26,667
1990					21,520
1989					21,448
1988					16,918
1987					12,354
1986					13,093
1985					13,547
1984					10,018
1983					7,485
1982					4,679
1981					5,178
1980					5,006
1979					4,003
1978					3,038
1977					3,204
1976					4,175
1975					4,878
1974					4,469
1973					2,521
1972					1,726
1971					935

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Includes premiums, discounts, deferred fees, impairments of unpaid principal balances, and other basis adjustments on mortgage loans and mortgage-related securities, plus unrealized gains or losses on available-for-sale mortgage-related securities. Amounts prior to 2006 include MBS residuals at fair value.

3 Excludes allowance for loan losses.

Table 14a. Freddie Mac Mortgage Assets Detail – Whole Loans

End of Period	Whole Loans ($ in Millions)[1]								
	Single-Family					Multifamily			Total Whole Loans ($)
	Conventional				Total FHA/VA ($)				
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)		Conventional ($)	FHA/RD ($)	Total ($)	
4Q09	50,980	2,310	0	53,290	1,588	83,935	3	83,938	138,816
3Q09	47,703	1,669	0	49,372	1,277	81,227	3	81,230	131,879
2Q09	49,175	1,727	0	50,902	1,066	78,304	3	78,307	130,275
1Q09	48,217	2,308	0	50,525	688	75,730	3	75,733	126,946
Annual Data									
2009	50,980	2,310	0	53,290	1,588	83,935	3	83,938	138,816
2008	36,071	2,136	0	38,207	548	72,718	3	72,721	111,476
2007	21,578	2,700	0	24,278	311	57,566	3	57,569	82,158
2006	19,211	1,233	0	20,444	196	45,204	3	45,207	65,847
2005	19,238	903	0	20,141	255	41,082	3	41,085	61,481
2004	22,055	990	0	23,045	344	37,968	3	37,971	61,360
2003	25,889	871	1	26,761	513	32,993	3	32,996	60,270
2002	33,821	1,321	3	35,145	705	28,033	3	28,036	63,886
2001	38,267	1,073	5	39,345	964	22,480	3	22,483	62,792
2000	39,537	2,125	9	41,671	1,200	16,369	Not Available Before 2001	16,369	59,240
1999	43,210	1,020	14	44,244	77	12,355		12,355	56,676
1998	47,754	1,220	23	48,997	109	7,978		7,978	57,084
1997	40,967	1,478	36	42,481	148	5,825		5,825	48,454
1996	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	4,746		4,746	46,504
1995						3,852		3,852	43,753

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans traded but not yet settled.

2 For 2001 through the current period, includes loans guaranteed by USDA Rural Development programs.

Table 14b. Freddie Mac Mortgage Assets Detail – Part 1, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)[1]													
	Freddie Mac Securities[2] ($)				Others' Securities									
	Single-Family				Fannie Mae				Ginnie Mae					
					Single-Family				Single-Family					
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Total Others' Securities ($)
4Q09	294,958	77,708	1,949	374,615	36,549	28,585	528	65,662	341	133	35	509	163,816	229,987
3Q09	319,275	82,260	1,955	403,490	36,296	30,693	531	67,520	357	138	35	530	168,542	236,592
2Q09	350,733	87,777	1,968	440,478	38,670	33,132	539	72,341	370	143	35	548	173,707	246,596
1Q09	364,163	89,270	1,988	455,421	57,545	33,956	559	92,060	385	148	45	578	179,360	271,998
Annual Data														
2009	294,958	77,708	1,949	374,615	36,549	28,585	528	65,662	341	133	35	509	163,816	229,987
2008	328,965	93,498	2,061	424,524	35,142	34,460	674	70,276	398	152	26	576	185,041	255,893
2007	269,896	84,415	2,659	356,970	23,140	23,043	922	47,105	468	181	82	731	218,914	266,750
2006	282,052	71,828	382	354,262	25,779	17,441	1,214	44,434	707	231	13	951	224,631	270,016
2005	299,167	61,766	391	361,324	28,818	13,180	1,335	43,333	1,045	218	30	1,293	231,594	276,220
2004	304,555	51,737	406	356,698	41,828	14,504	1,672	58,004	1,599	81	31	1,711	166,411	226,126
2003	Not Available	Not Available	Not Available	393,135	Not Available	Not Available	Not Available	74,529	Not Available	Not Available	Not Available	2,760	107,301	184,590
2002	Before 2004	Before 2004	Before 2004	341,287	Before 2004	Before 2004	Before 2004	78,829	Before 2004	Before 2004	Before 2004	4,878	70,752	154,459
2001				308,427				71,128				5,699	42,336	119,163
2000				246,209				28,303				8,991	35,997	73,291
1999				211,198				13,245				6,615	31,019	50,879
1998				168,108				3,749				4,458	16,970	25,177
1997				103,400				Not Available				6,393	Not Available	Not Available
1996				81,195				Before 1998				7,434	Before 1998	Before 1998
1995				56,006								Not Available		
1994				30,670								Before 1996		
1993				15,877										
1992				6,394										

Source: Freddie Mac

1 Based on unpaid principal balances.

2 For 2001 through the current period, includes structured securities backed by Ginnie Mae MBS, which were previously classified as non-Freddie Mac mortgage-related securities.

Table 14b. Freddie Mac Mortgage Assets Detail – Part 2, Mortgage-Related Securities, Private-Label Detail

End of Period	Mortgage-Related Securities ($ in Millions)[1]								
	Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Subprime		Alt-A[2]		Other[3]			
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q09	1,201	395	61,179	2,845	18,594	0	17,687	61,915	163,816
3Q09	1,232	407	63,989	2,941	19,311	0	18,213	62,449	168,542
2Q09	1,266	417	67,158	3,049	20,118	0	18,746	62,953	173,707
1Q09	1,296	428	70,568	3,164	21,000	0	19,220	63,684	179,360
Annual Data									
2009	1,201	395	61,179	2,845	18,594	0	17,687	61,915	163,816
2008	1,326	438	74,413	3,266	21,801	0	19,606	64,191	185,041
2007	1,472	498	100,827	3,720	26,343	0	21,250	64,804	218,914
2006	1,510	408	121,691	3,626	31,743	0	20,893	44,760	224,631
2005	1,680	Not Available Before 2006	Not Available Before 2006	Not Available Before 2006	Not Available Before 2006	4,749	181,678	43,487	231,594
2004	1,816					8,243	115,168	41,184	166,411
2003	2,085					Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	107,301
2002	2,394								70,752
2001	2,462								42,336
2000	2,896								35,997
1999	4,693								31,019
1998	1,711								16,970

Source: Freddie Mac

1 Based on unpaid principal balances.

2 Includes nonagency mortgage-related securities backed by home equity lines of credit.

3 Consists of nonagency mortgage-related securities backed by option ARM loans. Prior to 2006, includes securities principally backed by subprime and Alt-A mortgage loans.

Table 14b. Freddie Mac Mortgage Assets Detail – Part 3, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)		($ in Millions)	
	Mortgage Revenue Bonds[1] ($)	Total Mortgage-Related Securities[1] ($)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities[2] ($)	Total Mortgage Assets[3] ($)
4Q09	11,854	616,456	(38,298)	716,974
3Q09	12,210	652,292	(40,299)	743,872
2Q09	12,488	699,562	(53,883)	775,954
1Q09	12,739	740,158	(55,592)	811,512
Annual Data				
2009	11,854	616,456	(38,298)	716,974
2008	12,869	693,286	(56,015)	748,747
2007	14,935	638,655	(10,771)	710,042
2006	13,834	638,112	(3,957)	700,002
2005	11,321	648,865	(843)	709,503
2004	9,077	591,901	11,321	664,582
2003	7,772	585,497	14,764	660,531
2002	7,640	503,386	22,627	589,899
2001	7,257	434,847	6,130	503,769
2000	6,953	326,453	(242)	385,451
1999	5,690	267,767	(1,529)	322,914
1998	4,640	197,925	661	255,670
1997	3,031	Not Available Before 1998	122	164,543
1996	1,787		71	137,826
1995	Not Available Before 1996		282	107,706
1994			Not Available Before 1995	73,171
1993				55,938
1992				33,629
1991				26,667
1990				21,520
1989				21,448
1988				16,918
1987				12,354
1986				13,093
1985				13,547
1984				10,018
1983				7,485
1982				4,679
1981				5,178
1980				5,006
1979				4,003
1978				3,038
1977				3,204
1976				4,175
1975				4,878
1974				4,469
1973				2,521
1972				1,726
1971				935

Source: Freddie Mac

1 Based on unpaid principal balances.

2 Includes premiums, discounts, deferred fees, impairments of unpaid principal balances, and other basis adjustments on mortgage loans and mortgage-related securities, plus unrealized gains or losses on mortgage-related securities. Amounts prior to 2006 include MBS residuals.

3 Excludes allowance for loan losses.

Table 15. Freddie Mac Financial Derivatives

End of Period	Financial Derivatives – Notional Amount Outstanding ($ in Millions)									
	Interest Rate Swaps ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Treasury-Based Contracts[1] ($)	Exchange-Traded Futures, Options and Other Derivatives ($)	Credit Derivatives[2] ($)	Commitments[3] ($)	Other[4] ($)	Total ($)
4Q09	705,707	35,945	5,669	366,443	540	80,409	14,198	13,872	3,521	1,226,304
3Q09	786,849	36,035	5,775	420,581	1,210	80,409	14,146	34,571	3,488	1,383,064
2Q09	768,250	36,129	7,186	493,646	2,112	29,939	19,648	70,306	3,441	1,430,657
1Q09	761,044	36,223	12,345	331,482	34,596	73,594	17,359	98,780	3,392	1,368,815
Annual Data										
2009	705,707	35,945	5,669	366,443	540	80,409	14,198	13,872	3,521	1,226,304
2008	766,158	36,314	12,924	251,426	28,403	106,610	13,631	108,273	3,281	1,327,020
2007	711,829	0	20,118	313,033	0	196,270	7,667	72,662	1,302	1,322,881
2006	440,879	0	29,234	252,022	2,000	20,400	2,605	10,012	957	758,109
2005	341,008	45	37,850	193,502	0	86,252	2,414	21,961	738	683,770
2004	178,739	9,897	56,850	224,204	2,001	127,109	10,926	32,952	114,100	756,778
2003	287,592	11,308	46,512	349,650	8,549	122,619	15,542	89,520	152,579	1,083,871
2002	290,096	11,663	43,687	277,869	17,900	210,646	17,301	191,563	117,219	1,177,944
2001	442,771	12,178	23,995	187,486	13,276	358,500	10,984	121,588	0	1,170,778
2000	277,888	12,819	10,208	113,064	2,200	22,517	N/A	N/A	35,839	474,535
1999	126,580	19,936	1,097	172,750	8,894	94,987	Not Applicable	Not Applicable	0	424,244
1998	57,555	21,845	1,464	63,000	11,542	157,832	Before 2000	Before 2000	0	313,238
1997	54,172	21,995	1,152	6,000	12,228	0			0	95,547
1996	46,646	14,095	544	0	651	0			0	61,936
1995	45,384	13,055	0	0	24	0			0	58,463
1994	21,834	9,003	0	0	0	0			0	30,837
1993	17,888	1,500	0	0	0	0			0	19,388

Source: Freddie Mac

N/A = not available

1 Amounts for 2002 through the current period include exchange-traded.

2 Amounts included in "Other" in 2000, not applicable in prior periods.

3 Commitments to purchase and sell mortgage loans and mortgage-related securities. Periods prior to 2004 include commitments to purchase and sell various debt securities.

4 Includes prepayment management agreement and swap guarantee derivatives.

Table 16. Freddie Mac Nonmortgage Investments

End of Period	Nonmortgage Investments ($ in Millions)					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other[1] ($)	Total ($)
4Q09	0	4,045	7,000	439	14,787	26,271
3Q09	550	5,882	9,000	250	12,394	28,076
2Q09	0	6,788	8,500	0	11,395	26,683
1Q09	0	7,614	34,050	0	3,995	45,659
Annual Data						
2009	0	4,045	7,000	439	14,787	26,271
2008	0	8,794	10,150	0	0	18,944
2007	162	16,588	6,400	18,513	0	41,663
2006	19,778	32,122	3,250	11,191	2,273	68,614
2005	9,909	30,578	5,250	5,764	5,823	57,324
2004	18,647	21,733	13,550	0	8,097	62,027
2003	7,567	16,648	13,015	5,852	10,042	53,124
2002	6,129	34,790	16,914	13,050	20,988	91,871
2001	15,868	26,297	17,632	21,712	8,340	89,849
2000	2,267	19,063	7,488	7,302	7,401	43,521
1999	10,545	10,305	4,961	3,916	4,425	34,152
1998	20,524	7,124	1,756	7,795	4,961	42,160
1997	2,750	2,200	6,982	3,203	1,295	16,430
1996	9,968	2,086	6,440	1,058	2,696	22,248
1995	110	499	9,217	1,201	1,684	12,711
1994	7,260	0	5,913	1,234	3,401	17,808
1993	9,267	0	4,198	1,438	3,322	18,225
1992	5,632	0	4,060	53	2,797	12,542
1991	2,949	0	4,437	0	2,570	9,956
1990	1,112	0	9,063	0	1,949	12,124
1989	3,527	0	5,765	0	1,758	11,050
1988	4,469	0	9,107	0	1,031	14,607
1987	3,177	0	5,859	0	1,431	10,467

Source: Freddie Mac

[1] For 2009, amounts include Treasury Bills. For 2004 through 2008, amounts include obligations of states and municipalities classified as available-for-sale securities. For 2003 and prior periods, includes nonmortgage related securities classified as trading, debt securities issued by the U.S. Treasury and other U.S. government agencies, obligations of states and municipalities, and preferred stock.

Table 17. Freddie Mac Mortgage Asset Quality

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[1] (%)	Multifamily Delinquency Rate[2] (%)	Credit Losses/Average Total Mortgage Portfolio[3] (%)	REO/Total Mortgage Portfolio[4] (%)	Credit Enhanced[5]/ Total Mortgage Portfolio[4] (%)
4Q09	3.87	0.15	0.51	0.23	16.0
3Q09	3.33	0.11	0.44	0.21	16.0
2Q09	2.78	0.11	0.40	0.17	17.0
1Q09	2.29	0.09	0.28	0.15	17.0
Annual Data					
2009	3.87	0.15	0.41	0.23	16.0
2008	1.72	0.01	0.20	0.17	18.0
2007	0.65	0.02	0.03	0.08	17.0
2006	0.42	0.06	0.01	0.04	16.0
2005	0.53	0.00	0.01	0.04	17.0
2004	0.73	0.06	0.01	0.05	19.0
2003	0.86	0.05	0.01	0.06	21.0
2002	0.77	0.13	0.01	0.05	27.4
2001	0.62	0.15	0.01	0.04	34.7
2000	0.49	0.04	0.01	0.04	31.8
1999	0.39	0.14	0.02	0.05	29.9
1998	0.50	0.37	0.04	0.08	27.3
1997	0.55	0.96	0.08	0.11	15.9
1996	0.58	1.96	0.10	0.13	10.0
1995	0.60	2.88	0.11	0.14	9.7
1994	0.55	3.79	0.08	0.18	7.2
1993	0.61	5.92	0.11	0.16	5.3
1992	0.64	6.81	0.09	0.12	Not Available Before 1993
1991	0.61	5.42	0.08	0.14	
1990	0.45	2.63	0.08	0.12	
1989	0.38	2.53	0.08	0.09	
1988	0.36	2.24	0.07	0.09	
1987	0.36	1.49	0.07	0.08	
1986	0.42	1.07	Not Available Before 1987	0.07	
1985	0.42	0.63		0.10	
1984	0.46	0.42		0.15	
1983	0.47	0.58		0.15	
1982	0.54	1.04		0.12	
1981	0.61	Not Available Before 1982		0.07	
1980	0.44			0.04	
1979	0.31			0.02	
1978	0.21			0.02	
1977	Not Available Before 1978			0.03	
1976				0.04	
1975				0.03	
1974				0.02	

Source: Freddie Mac

1 Based on the number of mortgages 90 days or more delinquent or in foreclosure and excludes modified loans if the borrower is less than 90 days past due under the modified terms. Rates for years 2000 through 2004 are based on the single-family loans held as investments and total MBS and structured securities issued, excluding that portion of structured securities backed by Ginnie Mae MBS. Rates for years 2005 through the current period are based on single-family loans held as investments and total MBS and structured securities issued, excluding structured transactions and that portion of issued structured securities backed by Ginnie Mae MBS. The single-family delinquency rate, including structured transactions, was 3.98 percent in 2009 and 1.83 percent in 2008.

2 Prior to 2008, these rates were based on net carrying value of mortgages 60 days or more delinquent or in foreclosure. Beginning in 2008, these rates are based on the net carrying value of loans 90 days or more delinquent or in foreclosure.

3 Credit losses equal REO operations expense (income) plus net charge-offs and exclude other market-based valuation losses. Calculated as credit losses divided by the average balance of mortgage loans held for investment and mortgage loans underlying Freddie Mac MBS and structured securities, excluding that portion of structured securities backed by Ginnie Mae MBS.

4 Based on the total mortgage portfolio excluding non-Freddie Mac mortgage-related securities and that portion of issued structured securities backed by Ginnie Mae MBS.

5 Credit enhanced includes loans for which the lender or a third party has retained a portion of the primary default risk by pledging collateral or agreeing to accept losses on loans that default. In many cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

Table 18. Freddie Mac Capital

End of Period	Capital ($ in Millions)[1]									
	Minimum Capital Requirement			Risk-Based Capital Requirement						
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Regulatory Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)	Market Capitalization[6] ($)	Core Capital/ Total Assets (%)	Core Capital/ Total MBS Outstanding plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
4Q09	(23,774)	28,352	(52,126)	N/A	N/A	N/A	953	(2.82)	(1.02)	N/A
3Q09	(15,034)	28,800	(43,834)	N/A	N/A	N/A	1,167	(1.73)	(0.65)	N/A
2Q09	(8,748)	29,234	(37,982)	N/A	N/A	N/A	402	(0.98)	(0.38)	N/A
1Q09	(23,401)	30,477	(53,878)	N/A	N/A	N/A	493	(2.47)	(1.01)	N/A
Annual Data										
2009	(23,774)	28,352	(52,126)	N/A	N/A	N/A	953	(2.82)	(1.02)	N/A
2008	(13,174)	28,200	(41,374)	N/A	N/A	N/A	473	(1.55)	(0.58)	N/M
2007	37,867	26,473	11,394	40,929	14,102	26,827	22,018	4.77	1.74	N/M
2006	35,365	25,607	9,758	36,742	15,320	21,422	44,896	4.39	1.83	63.9
2005	35,043	24,791	10,252	36,781	11,282	25,499	45,269	4.35	1.97	56.4
2004	34,106	23,715	10,391	34,691	11,108	23,583	50,898	4.29	2.07	30.7
2003	32,416	23,362	9,054	33,436	5,426	28,010	40,158	4.03	2.08	15.6
2002	28,990	22,339	6,651	24,222	4,743	19,479	40,590	3.85	1.96	6.2
2001	20,181	19,014	1,167	Not Applicable	Not Applicable	Not Applicable	45,473	3.15	1.56	18.9
2000	14,380	14,178	202	Before 2002	Before 2002	Before 2002	47,702	3.13	1.39	20.0
1999	12,692	12,287	405				32,713	3.28	1.37	20.1
1998	10,715	10,333	382				44,797	3.33	1.34	20.7
1997	7,376	7,082	294				28,461	3.79	1.10	21.1
1996	6,743	6,517	226				19,161	3.88	1.04	21.3
1995	5,829	5,584	245				14,932	4.25	0.98	21.1
1994	5,169	4,884	285				9,132	4.87	0.91	20.5
1993	4,437	3,782	655				9,005	5.29	0.85	21.6
1992	Not Applicable	Not Applicable	Not Applicable				8,721	Not Applicable	Not Applicable	23.1
1991	Before 1993	Before 1993	Before 1993				8,247	Before 1993	Before 1993	21.6
1990							2,925			23.2
1989							4,024			24.3

Sources: Freddie Mac and FHFA

N/A = not applicable

N/M = not meaningful

1 On October 9, 2008, FHFA suspended capital classifications of Freddie Mac. As of the fourth quarter, neither the existing statutory nor the FHFA-directed regulatory capital requirements are binding and will not be binding during conservatorship.

2 Beginning in the fourth quarter of 2003, FHFA directed Freddie Mac to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. On March 19, 2008, FHFA announced a reduction in the mandatory target capital surplus from 30 percent to 20 percent above the statutory minimum capital requirements. The minimum capital requirement and minimum capital surplus numbers stated in this table do not reflect the inclusion of the additional capital requirement. Minimum capital surplus is the difference between core capital and the minimum capital requirement.

3 Total capital includes core capital and general reserves for mortgage and foreclosure losses.

4 The risk-based capital requirement is the amount of total capital an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. FHFA is not reporting on risk-based capital levels during conservatorship.

5 The difference between total capital and risk-based capital requirement. FHFA is not requiring risk-based capital during conservatorship.

6 Stock price at the end of the period multiplied by the number of outstanding common shares.

7 Common dividends paid as a percentage of net income available to common stockholders.

Table 19. Federal Home Loan Banks Combined Statement of Income

End of Period	($ in Millions)				
	Net Interest Income ($)	Operating Expenses ($)	Affordable Housing Program Assessment ($)	REFCORP Assessment[1] ($)	Net Income ($)
4Q09	1,346	226	62	138	552
3Q09	1,357	203	19	38	(165)
2Q09	1,487	196	120	272	1,123
1Q09	1,242	188	57	124	345
Annual Data					
2009	5,432	813	258	572	1,855
2008	5,243	732	188	412	1,206
2007	4,516	714	318	703	2,827
2006	4,293	671	295	647	2,612
2005	4,207	657	282	625	2,525
2004	4,171	547	225	505	1,994
2003	3,877	450	218	490	1,885
2002	3,722	393	168	375	1,507
2001	3,446	364	220	490	1,970
2000	3,313	333	246	553	2,211
1999	2,534	282	199	Not Applicable	2,128
1998	2,116	258	169	Before 2000	1,778
1997	1,772	229	137		1,492
1996	1,584	219	119		1,330
1995	1,401	213	104		1,300
1994	1,230	207	100		1,023
1993	954	197	75		884
1992	736	207	50		850
1991	1,051	264	50		1,159
1990	1,510	279	60		1,468

Source: Federal Home Loan Bank System Office of Finance

[1] Prior to 2000, the Federal Home Loan Banks charged a $300 million annual capital distribution to the Resolution Funding Corporation (REFCORP) directly to retained earnings.

Table 20. Federal Home Loan Banks Combined Balance Sheet

End of Period	($ in Millions)								
	Total Assets ($)	Advances to Members Outstanding ($)	Mortgage Loans Held ($)	Mortgage-Related Securities ($)	Consolidated Obligations ($)	Capital Stock ($)	Retained Earnings ($)	Regulatory Capital[1]	Regulatory Capital/Total Assets
4Q09	1,015,583	631,159	71,437	152,028	934,876	44,982	6,033	59,153	5.82
3Q09	1,061,766	677,880	74,177	151,929	979,914	48,111	5,643	59,384	5.59
2Q09	1,147,896	738,812	77,755	152,844	1,060,668	48,966	6,009	60,608	5.28
1Q09	1,232,195	817,407	85,032	157,536	1,142,062	47,246	5,037	59,654	4.84
Annual Data									
2009	1,015,583	631,159	71,437	152,028	934,876	44,982	6,033	59,153	5.82
2008	1,349,053	928,638	87,361	169,170	1,258,267	49,551	2,936	58,625	4.35
2007	1,271,800	875,061	91,610	143,513	1,178,916	50,253	3,689	55,050	4.33
2006	1,016,469	640,681	97,974	130,228	934,214	42,001	3,143	46,247	4.55
2005	997,389	619,860	105,240	122,328	915,901	42,043	2,600	46,102	4.62
2004	924,751	581,216	113,922	124,417	845,738	40,092	1,744	42,990	4.65
2003	822,418	514,037	113,438	97,867	740,721	37,703	1,098	38,801	4.72
2002	763,052	489,338	60,455	96,386	673,383	35,186	716	35,904	4.71
2001	696,254	472,540	27,641	86,730	621,003	33,288	749	34,039	4.89
2000	653,687	437,861	16,149	77,385	591,606	30,537	728	31,266	4.78
1999	583,212	395,747	2,026	62,531	525,419	28,361	654	29,019	4.98
1998	434,002	288,189	966	52,232	376,715	22,287	465	22,756	5.24
1997	348,575	202,265	37	47,072	304,493	18,833	341	19,180	5.50
1996	292,035	161,372	0	42,960	251,316	16,540	336	16,883	5.78
1995	272,661	132,264	0	38,029	231,417	14,850	366	15,213	5.58
1994	239,076	125,893	0	29,967	200,196	13,095	271	13,373	5.59
1993	178,897	103,131	0	22,217	138,741	11,450	317	11,766	6.58
1992	162,134	79,884	0	20,123	114,652	10,102	429	10,531	6.50
1991	154,556	79,065	0	Not Available	108,149	10,200	495	Not Available	Not Available
1990	165,742	117,103	0	Before 1992	118,437	11,104	521	Before 1992	Before 1992

Source: Federal Home Loan Bank System Office of Finance

[1] The sum of regulatory capital amounts reported in call reports filed by each Federal Home Loan Bank plus the combining adjustment for Federal Home Loan Bank System retained earnings reported by the Office of Finance.

Table 21. Federal Home Loan Banks Net Income

End of Period	($ in Millions)													
	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	Combining Adjustment	System Total
4Q09	82	6	21	49	39	41	24	96	(5)	174	(18)	46	(3)	552
3Q09	11	(105)	(150)	61	18	35	21	140	(40)	(85)	(93)	25	(3)	(165)
2Q09	192	(5)	103	75	26	76	53	187	31	303	(35)	105	12	1,123
1Q09	(2)	(83)	(39)	83	65	(6)	22	148	(23)	123	(16)	61	12	345
Annual Data														
2009	283	(187)	(65)	268	148	146	120	571	(37)	515	(162)	237	18	1,855
2008	254	(116)	(119)	236	79	127	184	259	19	461	(199)	28	(7)	1,206
2007	445	198	111	269	130	101	122	323	237	652	71	150	18	2,827
2006	414	196	188	253	122	89	118	285	216	542	26	136	27	2,612
2005	344	135	244	220	242	228	153	230	192	369	2	136	30	2,525
2004	294	90	365	227	65	100	131	161	119	293	83	93	(27)	1,994
2003	207	92	437	171	113	135	134	46	69	323	144	88	(74)	1,885
2002	267	76	205	178	(50)	46	81	234	(27)	292	147	58	0	1,507
2001	162	113	164	189	114	74	104	285	85	425	178	77	0	1,970
2000	298	146	129	193	129	124	127	277	173	377	139	99	0	2,211
1999	282	137	131	173	109	132	125	244	184	332	165	90	24	2,128
1998	221	116	111	176	99	116	111	186	143	294	154	81	(30)	1,778
1997	192	103	99	135	87	110	98	144	110	249	129	65	(29)	1,492
1996	165	96	92	116	95	111	80	131	97	219	118	58	(48)	1,330
1995	159	92	73	91	91	103	74	136	82	200	87	50	63	1,300
1994	120	69	57	68	78	76	71	126	58	196	75	45	(16)	1,024
1993	114	57	49	33	39	50	53	117	62	163	122	35	(12)	884
1992	124	52	51	41	26	47	59	141	58	131	93	33	(5)	850
1991	158	88	58	51	38	46	64	156	57	316	58	64	7	1,159

Source: Federal Home Loan Bank System Office of Finance

Table 22. Federal Home Loan Banks Advances Outstanding

End of Period	($ in Millions)												
	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	System Total
4Q09	114,580	37,591	24,148	35,818	47,263	35,720	22,443	94,349	41,177	133,559	22,257	22,254	631,159
3Q09	125,823	37,936	25,457	38,082	50,035	36,303	24,432	95,945	41,364	154,962	24,908	22,633	677,880
2Q09	134,503	41,854	27,192	44,865	53,470	37,165	25,987	100,458	45,799	174,732	28,257	24,530	738,812
1Q09	148,090	49,433	31,197	47,112	56,402	37,783	27,899	104,464	52,260	203,904	31,848	27,015	817,407
Annual Data													
2009	114,580	37,591	24,148	35,818	47,263	35,720	22,443	94,349	41,177	133,559	22,257	22,254	631,159
2008	165,856	56,926	38,140	53,916	60,920	41,897	31,249	109,153	62,153	235,664	36,944	35,820	928,638
2007	142,867	55,680	30,221	53,310	46,298	40,412	26,770	82,090	68,798	251,034	45,524	32,057	875,061
2006	101,476	37,342	26,179	41,956	41,168	21,855	22,282	59,013	49,335	183,669	27,961	28,445	640,681
2005	101,265	38,068	24,921	40,262	46,457	22,283	25,814	61,902	47,493	162,873	21,435	27,087	619,860
2004	95,867	30,209	24,192	41,301	47,112	27,175	25,231	68,508	38,980	140,254	14,897	27,490	581,216
2003	88,149	26,074	26,443	43,129	40,595	23,272	28,925	63,923	34,662	92,330	19,653	26,882	514,037
2002	82,244	26,931	24,945	40,063	36,869	23,971	28,944	68,926	29,251	81,237	20,036	25,921	489,338
2001	71,818	24,361	21,902	35,223	32,490	20,745	26,399	60,962	29,311	102,255	24,252	22,822	472,540
2000	58,249	21,594	18,462	31,935	30,195	21,158	24,073	52,396	25,946	110,031	26,240	17,582	437,861
1999	45,216	22,488	17,167	28,134	27,034	22,949	19,433	44,409	36,527	90,514	26,284	15,592	395,747
1998	33,561	15,419	14,899	17,873	22,191	18,673	14,388	31,517	26,050	63,990	21,151	8,477	288,189
1997	23,128	12,052	10,369	14,722	13,043	10,559	11,435	19,601	16,979	49,310	15,223	5,844	202,265
1996	16,774	9,655	10,252	10,882	10,085	10,306	9,570	16,486	12,369	39,222	10,850	4,921	161,372
1995	13,920	8,124	8,282	8,287	9,505	11,226	7,926	15,454	9,657	25,664	9,035	5,185	132,264
1994	14,526	8,504	6,675	7,140	8,039	9,819	7,754	14,509	8,475	25,343	8,899	6,212	125,893
1993	11,340	7,208	4,380	4,274	10,470	6,362	6,078	12,162	6,713	23,847	5,889	4,407	103,131
1992	9,301	5,038	2,873	2,415	7,322	3,314	5,657	8,780	3,547	23,110	5,025	3,502	79,884
1991	8,861	5,297	1,773	2,285	4,634	2,380	5,426	11,804	2,770	24,178	5,647	4,011	79,065

Source: Federal Home Loan Bank System Office of Finance

Table 23. Federal Home Loan Banks Regulatory Capital[1]

End of Period	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	Combining Adjustment[2]	System Total
	($ in Millions)													
4Q09	9,185	3,876	3,502	4,151	2,897	2,953	2,830	5,874	4,415	14,657	2,848	1,980	(15)	59,153
3Q09	9,085	3,856	3,486	4,152	2,935	3,428	2,811	5,936	4,416	14,467	2,865	1,959	(12)	59,384
2Q09	9,028	3,948	3,638	4,506	3,208	3,373	2,793	6,098	4,450	14,589	2,957	2,029	(9)	60,608
1Q09	8,702	3,941	3,499	4,462	3,233	3,250	2,721	6,042	4,410	14,252	2,987	2,176	(21)	59,654
Annual Data														
2009	9,185	3,876	3,502	4,151	2,897	2,953	2,830	5,874	4,415	14,657	2,848	1,980	(15)	59,153
2008	8,942	3,658	3,327	4,399	3,530	3,174	2,701	6,112	4,157	13,539	2,687	2,432	(33)	58,625
2007	8,080	3,421	3,342	3,877	2,688	3,125	2,368	5,025	4,295	13,859	2,660	2,336	(26)	55,050
2006	6,394	2,542	3,208	4,050	2,598	2,315	2,111	4,025	3,655	10,865	2,303	2,225	(44)	46,247
2005	6,225	2,675	4,507	4,130	2,796	2,346	2,349	3,900	3,289	9,698	2,268	1,990	(71)	46,102
2004	5,681	2,240	4,793	4,002	2,846	2,453	2,132	4,005	2,791	7,959	2,166	2,023	(101)	42,990
2003	5,030	2,490	4,542	3,737	2,666	2,226	1,961	3,765	2,344	5,858	2,456	1,800	(74)	38,801
2002	4,577	2,323	3,296	3,613	2,421	1,889	1,935	4,296	1,824	5,687	2,382	1,661	0	35,904
2001	4,165	2,032	2,507	3,240	2,212	1,574	1,753	3,910	1,970	6,814	2,426	1,436	0	34,039
2000	3,649	1,905	1,701	2,841	2,166	1,773	1,581	3,747	2,175	6,292	2,168	1,267	0	31,266
1999	3,433	1,868	1,505	2,407	1,862	2,264	1,446	3,093	2,416	5,438	2,098	1,190	0	29,019
1998	2,427	1,530	1,299	1,952	1,570	1,526	1,179	2,326	1,827	4,435	1,813	894	(24)	22,756
1997	2,077	1,344	1,159	1,694	1,338	1,320	1,090	1,881	1,440	3,545	1,495	791	6	19,180
1996	1,846	1,239	1,091	1,377	1,150	1,245	903	1,616	1,230	3,150	1,334	666	35	16,883
1995	1,615	1,201	941	1,128	1,168	1,217	799	1,531	1,030	2,719	1,148	632	83	15,213
1994	1,488	1,091	749	961	944	905	676	1,281	924	2,627	1,094	612	20	13,373
1993	1,423	927	648	692	914	652	584	1,251	740	2,440	934	526	36	11,766
1992	1,333	843	564	563	661	515	548	1,181	566	2,453	782	474	48	10,531
1991	1,367	807	525	517	645	450	515	1,234	492	2,924	652	514	53	10,695

Source: Federal Home Loan Bank System Office of Finance

1 For the Federal Home Loan Bank of Chicago and for all other FHLBanks before 2005, amounts for regulatory capital are from call reports filed by each Federal Home Loan Bank. Except for the Federal Home Loan Bank of Chicago, amounts in 2005, 2006, 2007, 2008, and the first three quarters of 2009 are as reported by the Office of Finance.

2 Combining adjustment for Federal Home Loan Bank System retained earnings reported by the Office of Finance.

Table 24. Loan Limits

Period	Single-Family Conforming Loan Limits[1]			
	One Unit	Two Units	Three Units	Four Units
2010[2]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2009[3]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2008[4]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2007	417,000	533,850	645,300	801,950
2006	417,000	533,850	645,300	801,950
2005	359,650	460,400	556,500	691,600
2004	333,700	427,150	516,300	641,650
2003	322,700	413,100	499,300	620,500
2002	300,700	384,900	465,200	578,150
2001	275,000	351,950	425,400	528,700
2000	252,700	323,400	390,900	485,800
1999	240,000	307,100	371,200	461,350
1998	227,150	290,650	351,300	436,600
1997	214,600	274,550	331,850	412,450
1996	207,000	264,750	320,050	397,800
1995	203,150	259,850	314,100	390,400
1994	203,150	259,850	314,100	390,400
1993	203,150	259,850	314,100	390,400
1992	202,300	258,800	312,800	388,800
1991	191,250	244,650	295,650	367,500
5/1/1990 – 12/31/1990	187,450	239,750	289,750	360,150
1989 – 4/30/1990	187,600	239,950	290,000	360,450
1988	168,700	215,800	260,800	324,150
1987	153,100	195,850	236,650	294,150
1986	133,250	170,450	205,950	256,000
1985	115,300	147,500	178,200	221,500
1984	114,000	145,800	176,100	218,900
1983	108,300	138,500	167,200	207,900
1982	107,000	136,800	165,100	205,300
1981	98,500	126,000	152,000	189,000
1980	93,750	120,000	145,000	170,000
10/27/1977 – 1979	75,000	75,000	75,000	75,000
1975 – 10/26/1977	55,000	55,000	55,000	55,000

Sources: Department of Housing and Urban Development (HUD), FHFA, Freddie Mac

1 Conforming loan limits are 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

2 Maximum loan limits for mortgages originated in 2010 were set by Public Law 111-88 at the higher of the limits established by the Economic Stimulus Act of 2008 and those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008. For all areas, the resulting 2010 limits were the same as those in effect for 2009.

3 Loan limits for mortgages originated in 2009 were initially set under provisions of the Housing and Economic Recovery Act of 2008, which allowed for high-cost area limits of up to $625,500. In February 2009, however, the American Recovery and Reinvestment Act of 2009 restored the $729,750 maximum loan limit for mortgages originated in 2009.

4 The Economic Stimulus Act of 2008 allowed Fannie Mae and Freddie Mac to raise the conforming loan limits in certain high-cost areas to a maximum of $729,750 for one-unit homes in the continental United States. Higher limits applied to two-, three-, and four-unit homes. Alaska, Hawaii, Guam, and the Virgin Islands have higher maximum limits. The limits applied to loans originated between July 1, 2007 and December 31, 2008.

Period	FHA Single-Family Insurable Limits							
	One Unit		Two Units		Three Units		Four Units	
	Low-Cost Area Max	High-Cost Area Max	Low-Cost Area Max	High-Cost Area Max	Low-Cost Area Max	High-Cost Area Max	Low-Cost Area Max	High-Cost Area Max
2010[1]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2009[2]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2008[3]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2007	200,160	362,790	256,248	464,449	309,744	561,411	384,936	697,696
2006	200,160	362,790	256,248	464,449	309,744	561,411	384,936	697,696
2005	172,632	312,895	220,992	400,548	267,120	484,155	331,968	601,692
2004	160,176	290,319	205,032	371,621	247,824	449,181	307,992	558,236
2003	154,896	280,749	198,288	359,397	239,664	434,391	297,840	539,835
2002	144,336	261,609	184,752	334,863	223,296	404,724	277,512	502,990
2001	132,000	239,250	168,936	306,196	204,192	370,098	253,776	459,969
2000	121,296	219,849	155,232	281,358	187,632	340,083	233,184	422,646
1999	115,200	208,800	147,408	267,177	178,176	322,944	221,448	401,375
1998	109,032	197,621	139,512	252,866	168,624	305,631	209,568	379,842
1997	81,546	170,362	104,310	205,875	126,103	248,888	156,731	309,338

Source: Federal Housing Administration

1 Maximum loan limits for mortgages originated in 2010 were set by Public Law 111-88 at the higher of the limits established by the Economic Stimulus Act of 2008 and those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008. For all areas, the resulting 2010 limits were the same as those in effect for 2009.

2 Loan limits for mortgages originated in 2009 were initially set under provisions of the Housing and Economic Recovery Act of 2008, which allowed for high-cost area limits of up to $625,500. In February 2009, however, the American Recovery and Reinvestment Act of 2009 restored the $729,750 maximum loan limit for mortgages originated in 2009.

3 The Economic Stimulus Act of 2008 allowed the Federal Housing Administration (FHA) to increase the single-family insurable limits to a maximum of $729,750 for one-unit homes in the continental United States. Higher limits applied to two-, three-, and four-unit homes. Alaska, Hawaii, Guam, and the Virgin Islands have higher maximum limits. The limits applied to loans originated between July 1, 2007, and December 31, 2008.

Table 25. Mortgage Interest Rates

Period	Average Commitment Rates on Loans		Effective Rates on Closed Loans	
	Conventional		Conventional	
	30-Year Fixed Rate ($)	One-Year Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)
4Q09	4.9	4.4	5.1	N/A
3Q09	5.2	4.7	5.3	N/A
2Q09	5.0	4.8	5.0	N/A
1Q09	5.1	4.9	5.1	N/A
Annual Data				
2009	5.0	4.7	5.2	N/A
2008	6.0	5.2	6.2	5.8
2007	6.3	5.6	6.5	6.3
2006	6.4	5.5	6.7	6.4
2005	5.9	4.5	6.1	5.5
2004	5.8	3.9	6.0	5.2
2003	5.8	3.8	5.9	5.0
2002	6.5	4.6	6.7	5.7
2001	7.0	5.8	7.1	6.4
2000	8.1	7.0	8.3	7.1
1999	7.4	6.0	7.4	6.5
1998	6.9	5.6	7.2	6.5
1997	7.6	5.6	7.9	6.9
1996	7.8	5.7	8.0	7.1
1995	7.9	6.1	8.2	7.1
1994	8.4	5.4	8.2	6.4
1993	7.3	4.6	7.5	5.7
1992	8.4	5.6	8.5	6.6
1991	9.2	7.1	9.7	8.3
1990	10.1	8.4	10.4	9.2
1989	10.3	8.8	10.5	9.4
1988	10.3	7.9	10.4	8.5
1987	10.2	7.8	9.9	8.5
1986	10.2	8.4	10.5	9.4
1985	12.4	10.0	12.4	10.9
1984	13.9	11.5	13.2	12.0
1983	13.2	Not Available Before 1984	13.0	12.3
1982	16.0		Not Available Before 1983	Not Available Before 1983
1981	16.6			
1980	13.7			
1979	11.2			
1978	9.6			
1977	8.8			
1976	8.9			
1975	9.0			
1974	9.2			
1973	8.0			
1972	7.4			

Sources: Freddie Mac for average commitment rates; FHFA for effective rates

N/A = not available

Table 26. Housing Market Activity[1]

Period	Housing Starts (units in thousands)			Home Sales (units in thousands)	
	One- to Four-Unit Housing Starts	Multifamily Housing Starts	Total Housing Starts	Sales of New One- to Four-Unit Homes	Sales of Existing One- to Four-Unit Homes
4Q09[2]	N/A	68	565	372	5,970
3Q09[2]	N/A	79	586	406	5,280
2Q09[2]	N/A	104	537	372	4,780
1Q09[2]	N/A	149	530	338	4,610
Annual Data					
2009	457	97	554	375	5,156
2008	640	266	906	485	4,913
2007	1,078	277	1,355	776	5,652
2006	1,508	293	1,801	1,051	6,478
2005	1,757	311	2,068	1,283	7,076
2004	1,653	303	1,956	1,203	6,778
2003	1,533	315	1,848	1,086	6,175
2002	1,397	308	1,705	973	5,632
2001	1,310	293	1,603	908	5,335
2000	1,270	299	1,569	877	5,174
1999	1,334	307	1,641	880	5,183
1998	1,314	303	1,617	886	4,966
1997	1,178	296	1,474	804	4,371
1996	1,206	271	1,477	757	4,167
1995	1,110	244	1,354	667	3,852
1994	1,234	224	1,457	670	3,886
1993	1,155	133	1,288	666	3,739
1992	1,061	139	1,200	610	3,432
1991	876	138	1,014	509	3,145
1990	932	260	1,193	534	3,186
1989	1,059	318	1,376	650	3,290
1988	1,140	348	1,488	676	3,594
1987	1,212	409	1,621	671	3,526
1986	1,263	542	1,805	750	3,565
1985	1,166	576	1,742	688	3,214
1984	1,206	544	1,750	639	2,868
1983	1,181	522	1,703	623	2,719
1982	743	320	1,062	412	1,990
1981	797	288	1,084	436	2,419
1980	962	331	1,292	545	2,973
1979	1,316	429	1,745	709	3,827
1978	1,558	462	2,020	817	3,986
1977	1,573	414	1,987	819	3,650
1976	1,248	289	1,538	646	3,064
1975	956	204	1,160	549	2,476
1974	956	382	1,338	519	2,272
1973	1,250	795	2,045	634	2,334
1972	1,450	906	2,357	718	2,252
1971	1,272	781	2,052	656	2,018

Sources: U.S. Census Bureau for housing starts and sales of new one- to four-unit properties; National Association of Realtors for sales of existing one- to four-unit properties

N/A = not available

1 Components may not add to totals due to rounding.

2 Seasonally adjusted annual rates.

Table 27. Weighted Repeat Sales House Price Index (Annual Data)[1]

Period	USA	New England	Mid-Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
4Q09	(1.50)	(0.78)	(1.48)	(2.79)	(1.74)	(0.03)	(0.04)	1.00	(7.44)	(0.68)
3Q09	(3.77)	(2.71)	(3.16)	(4.83)	(2.57)	(1.34)	(1.38)	(0.29)	(8.96)	(7.88)
2Q09	(5.90)	(3.17)	(3.76)	(7.74)	(3.79)	(2.18)	(2.61)	(0.32)	(10.48)	(14.81)
1Q09	(7.06)	(3.48)	(4.00)	(8.80)	(4.03)	(2.76)	(3.00)	(0.40)	(10.73)	(19.87)
Annual Data										
2009	(1.50)	(0.78)	(1.48)	(2.79)	(1.74)	(0.03)	(0.04)	1.00	(7.44)	(0.68)
2008	(8.30)	(5.80)	(3.93)	(11.25)	(5.73)	(3.67)	(3.30)	(0.78)	(9.39)	(21.96)
2007	(1.25)	(2.07)	0.76	(1.78)	(2.96)	(0.44)	1.97	3.13	(0.85)	(5.59)
2006	3.51	(1.60)	3.03	3.78	(0.05)	1.92	6.05	6.30	8.18	5.09
2005	9.26	6.37	10.14	13.15	3.62	4.37	7.26	7.00	14.66	15.24
2004	9.27	10.26	12.32	12.44	4.51	5.79	4.99	4.44	11.38	15.96
2003	7.57	10.43	11.15	8.69	4.65	5.53	4.23	3.21	6.76	13.08
2002	7.63	13.66	12.10	8.14	4.69	6.39	3.30	3.60	5.14	12.76
2001	6.79	12.20	9.71	7.61	4.80	6.86	3.41	3.76	4.99	9.13
2000	6.92	12.92	8.50	6.33	5.14	7.26	2.85	5.79	5.80	10.03
1999	6.04	10.64	7.01	5.46	5.22	5.90	3.98	5.67	5.73	7.05
1998	5.58	8.33	4.56	4.72	5.01	6.52	4.64	5.62	4.76	7.62
1997	3.42	4.72	2.16	3.49	3.55	3.62	2.84	3.01	3.03	4.44
1996	3.05	2.71	0.97	2.90	4.69	4.03	3.89	2.36	3.93	2.20
1995	2.70	0.40	(0.15)	2.60	5.20	4.34	4.66	3.02	4.78	(0.23)
1994	2.92	0.81	(0.43)	3.06	4.51	4.29	5.08	2.81	8.71	0.10
1993	2.80	(1.61)	0.27	1.86	4.45	6.30	4.66	4.50	9.85	(1.63)
1992	2.65	(0.75)	1.55	1.98	4.88	3.82	4.16	3.79	6.56	(1.18)
1991	2.93	(2.24)	1.46	3.06	4.54	3.75	4.15	3.72	4.73	1.32
1990	0.57	(7.70)	(2.92)	0.08	3.75	0.56	0.59	0.37	1.86	2.85
1989	5.91	0.63	2.33	5.09	6.11	3.05	3.00	2.66	2.74	19.61
1988	5.88	3.57	6.14	6.94	6.64	2.42	2.71	(1.99)	0.33	17.57
1987	5.86	13.56	16.22	6.98	8.18	2.64	4.16	(8.64)	(2.64)	9.54
1986	7.44	21.03	18.29	6.16	7.33	4.11	5.47	(0.42)	3.06	7.25
1985	6.01	25.10	14.17	5.37	4.83	4.43	5.15	(1.57)	2.18	4.86
1984	5.12	18.10	13.60	4.16	2.71	4.20	3.70	(0.15)	2.23	5.15
1983	4.10	15.62	9.89	3.23	4.81	4.44	3.91	0.53	(2.64)	0.96
1982	1.68	3.79	3.91	4.19	(5.21)	(0.74)	3.68	5.80	6.39	0.78
1981	4.71	5.73	0.83	6.43	2.31	0.89	0.94	12.21	7.31	6.03
1980	6.65	5.07	9.76	8.25	1.52	4.24	3.94	8.39	6.81	11.24
1979	12.46	10.70	17.83	12.19	8.92	8.99	8.98	13.35	14.76	16.21
1978	13.78	16.73	7.86	11.69	14.97	13.39	12.02	17.43	17.28	15.55
1977	14.22	8.67	10.63	8.14	13.32	17.37	12.42	14.08	18.16	25.86
1976	7.66	3.54	(0.97)	5.62	8.29	5.53	4.45	8.87	10.45	19.89

1 Percentage changes based on FHFA's purchase-only index for 1992 through 2009 and all-transactions index for prior years. Annual data are measured based on fourth quarter to fourth quarter percentage change. Quarterly data for 2009 reflect changes over the previous four quarters.

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New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Mid-Atlantic: New Jersey, New York, Pennsylvania

South Atlantic: Washington, D.C., Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin

West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

East South Central: Alabama, Kentucky, Mississippi, Tennessee

West South Central: Arkansas, Louisiana, Oklahoma, Texas

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Pacific: Alaska, California, Hawaii, Oregon, Washington

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