Federal Housing Finance Board

FEDERAL HOUSING FINANCE BOARD
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED
SEPTEMBER 30, 2008 AND 2007

REPORT NUMBER 08-A-08-OM

Prepared By:

Brown & Company CPAs, PLLC
9200 Basil Court, Suite 400
Largo, Maryland 20774
November 6, 2008

NOTICE OF EVENTS

On July 30, 2008, the President signed the "Housing and Economic Recovery Act of 2008" (Act). The Act gives the Finance Board responsibility for winding up the affairs of FHFB by July 30, 2009. Consequently, any information in this report that relate to matters associated with winding up the affairs of FHFB will be forwarded to the Chairman of FHFB for action under the authorities delegated to him by the FHFB.

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BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Office of the Inspector General
Board of Directors
Federal Housing Finance Board
Washington, D.C.

We have audited the accompanying balance sheet of the Federal Housing Finance Board (the Finance Board) as of September 30, 2008 and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. We also audited the balance sheet as of September 30, 2007 and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of the Finance Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirement for Federal Financial Statements.* Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Housing Finance Board as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 6, 2008 on our consideration of the Finance Board's internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Largo, Maryland
November 6, 2008

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BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Office of Inspector General
Board of Directors
Federal Housing Finance Board
Washington, D.C.

We have audited the financial statements of the Federal Housing Finance Board (the Finance Board) as of and for the year ended September 30, 2008 and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the Finance Board's internal control over financial reporting by obtaining an understanding of the Finance Board's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, Significant Deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Material Weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

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This report is intended solely for the information and use of the management of the Federal Housing Finance Board, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 6, 2008

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Office of the Inspector General
Board of Directors
Federal Housing Finance Board
Washington, D.C.

We have audited the financial statements of the Federal Housing Finance Board (the Finance Board) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

The management of the Finance Board is responsible for complying with laws and regulations applicable to the Finance Board. As part of obtaining reasonable assurance about whether the Finance Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Finance Board.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the Finance Board, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 6, 2008

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FEDERAL HOUSING FINANCE BOARD

Balance Sheet

As of September 30, 2008 and 2007

(In Dollars)

	2008	2007
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 6,778,649	$ 6,727,173
Accounts Receivable (Note 1)	1,462,000	-
Total Intragovernmental	8,240,649	6,727,173
Accounts Receivable (Note 1)	3,080	2,189
General Property, Plant and Equipment, Net (Note 3)	1,012,730	1,186,745
Other	10,840	10,671
Total Assets	$ 9,267,299	$ 7,926,778
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 131,643	$ 225,033
Other (Note 4)	173,207	134,627
Total Intragovernmental	304,850	359,660
Accounts Payable	2,059,730	1,459,183
Other (Note 4)	2,988,500	2,503,516
Total liabilities	$ 5,353,080	$ 4,322,359
Net Position:		
Cumulative Results of Operations - Other Funds	$ 3,914,219	$ 3,604,419
Total Net Position	3,914,219	3,604,419
Total Liabilities and Net Position	$ 9,267,299	$ 7,926,778

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING FINANCE BOARD

Statement of Net Cost

for the Years Ended September 30, 2008 and 2007

	2008	2007
	(In Dollars)	
Payment Costs:		
Review of Federal Home Loan Banks:		
Gross Costs (Note 6)	$ 38,620,598	$ 35,568,057
Less: Earned Revenue	37,989,374	31,111,239
Net Program Costs	631,224	4,456,818
Net Cost of Operations	$ 631,224	$ 4,456,818

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING FINANCE BOARD

Statement of Changes in Net Position

for the Years Ended September 30, 2008 and 2007

	2008	2007
	(In Dollars)	
Cumulative Results of Operations:		
Beginning Balances	$ 3,604,419	$ 7,002,116
Budgetary Financing Sources:		
Transfers In/Out Without Reimbursement	$ (80,904)	$ -
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	1,021,928	1,059,121
Total Financing Sources	$ 941,024	$ 1,059,121
Net Cost of Operations	631,224	4,456,818
Net Change	$ 309,800	$ (3,397,697)
Cumulative Results of Operations	$ 3,914,219	$ 3,604,419
Net Position	$ 3,914,219	$ 3,604,419

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING FINANCE BOARD

Statement of Budgetary Resources

for the Years Ended September 30, 2008 and 2007

(In Dollars)

	2008	2007
Payment Costs:		
Budgetary Resources:		
Unobligated Balance:		
Unobligated Balance Brought Forward, October 1	$ 2,151,043	$ 4,742,569
Recoveries of Prior Year Unpaid Obligations	636,680	589,351
Budget Authority		
Spending Authority From Offsetting Collections		
Earned		
Collected	36,527,374	31,111,239
Change In Receivables From Federal Sources	1,462,000	-
Change In Unfilled Customer Orders		
Without Advance From Federal Sources	4,038,000	-
Subtotal	42,027,374	31,111,239
Total Budgetary Resources	$ 44,815,097	$ 36,443,159
Status of Budgetary Resources:		
Obligations Incurred		
Reimbursable	$ 42,966,644	$ 34,292,116
Unobligated Balance		
Exempt From Apportionment	1,848,453	2,151,043
Total Status of Budgetary Resources	$ 44,815,097	$ 36,443,159
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 4,576,130	$ 4,200,271
Obligations Incurred Net	42,966,644	34,292,116
Less: Gross Outlays	36,475,898	33,326,906
Less: Recoveries of Prior Year Unpaid		
Obligations, Actual	636,680	589,351
Change In Uncollected Customer Payments		
From Federal Sources	(5,500,000)	-
Obligated Balance, Net, End of Period		
Unpaid obligations	10,430,196	4,576,130
Less: Uncollected Customer Payments From		
Federal Sources	5,500,000	-
Total, Unpaid Obligated Balance, Net, End of Period	$ 4,930,196	$ 4,576,130
Net Outlays:		
Net Outlays:		
Gross Outlays	$ 36,475,898	$ 33,326,906
Less: Offsetting Collections	36,527,374	31,111,239
Net Outlays	$ (51,476)	$ 2,215,667

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING FINANCE BOARD

Notes to the Financial Statements

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of the Federal Housing Finance Board (FHFB). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the FHFB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements and the FHFB accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the FHFB's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. In accordance with OMB Circular No. A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

B. Reporting Entity

The FHFB is an independent non-appropriated Agency in the Executive Branch. The FHFB ensures that Federal Home Loan Banks, which are privately capitalized, government-sponsored enterprises, operate in a safe and sound manner, carry out the housing and community development finance mission, and remain adequately capitalized and able to raise funds in the capital markets. The Federal Home Loan Bank System raises its money through the Office of Finance that acts as the central debt issuance facility for all 12 Federal Home Loan Banks.

The Federal Home Loan Bank System was created in 1932 to promote home ownership and a strong home-finance industry. It is a network of 12 district banks that provide lending, deposit, and other services to mortgage-lending institutions. The members of the Federal Home Loan Bank System originate and hold a significant portion of the nation's home mortgages. Membership includes the thrift institutions, commercial banks, credit unions, and a small number of insurance companies.

Each Federal Home Loan Bank and the Office of Finance operates with its own staff and funding. Accordingly, the accompanying financial statements summarize only the financial activities of the FHFB.

The FHFB is located in Washington, DC, where it operates with a staff of approximately 140 employees under the direction of a five member Board of Directors, four of whom are appointed from the private sector by the President. The fifth is the Secretary of Housing and Urban Development or designee. Operation of the FHFB is funded by the collection of assessments from each of the Federal Home Loan Banks. These assessments are used to fund the salaries and expenses of staff engaged in supervision and compliance activities, policy development, strategic planning, and administration. These funds are neither appropriated nor subject to apportionment.

C. Establishment of Federal Housing Finance Agency

On July 30, 2008 the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). HERA created the Federal Housing Finance Agency (FHFA) which is empowered with supervisory and regulatory oversight of the Federal Home Loan Banks, Fannie Mae, and Freddie Mac. Under HERA, the transfer of personnel, property, and program activities of the Federal Housing Finance Board (FHFB), Office of Federal Housing Enterprise Oversight (OFHEO), and certain employees and activities of the Department of Housing and Urban Development related to the regulation of the mission of Fannie Mae and Freddie Mac are transferred to FHFA. In addition, all regulatory authority of the FHFB has been transferred to FHFA.

NOTE 1, continued

HERA abolishes the FHFB effective at the end of the 1-year period beginning on the date of enactment. During this 1-year period, the FHFB exists solely for the purpose of winding up the affairs of the FHFB.

Upon enactment of HERA, the assessments of the FHFB became the assessments of FHFA. Such assessments may be used for expenses associated with winding up the affairs of the FHFB and other related operational expenses. The FHFB transferred $80,904 to FHFA to fund the non-personnel obligations incurred by FHFA from July 30, 2008 to September 30, 2008. This transfer is reflected in the Balance Sheet, the Statement of Changes in Net Position and in the Statement of Budgetary Resources. The FHFA incurred $593,140 in personnel costs from FHFB related to FHFA activities. These personnel costs were paid directly from FHFB's fund as they were incurred. Also, FHFA requested the FHFB procure legal services for FHFA in the amount of $5,500,000 related to the conservatorship of Fannie Mae and Freddie Mac.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis, consistent with accounting principles generally accepted in the United States of America, and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or disbursement of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

E. Revenues & Other Financing Sources

Operating revenues of the FHFB are obtained through assessments of the 12 Federal Home Loan Banks. The banks are collectively assessed based on amounts needed to fund the FHFB's annual budget. The agency's Board of Directors, in September 2007, approved the budget. Each Federal Home Loan Bank's share is based upon the dollar value of its capital stock relative to the combined dollar value of all Federal Home Loan Banks' capital stock. The FHFB's expenses are met through assessments paid by the Federal Home Loan Banks, which totaled $36,520,186 and $31,109,690 for the fiscal years ended September 30, 2008 and 2007, respectively.

The FHFB recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on the FHFB's behalf by the Office of Personnel Management (OPM).

F. Taxes

The FHFB, as a federal entity, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. The FHFB does not maintain cash in commercial bank accounts or foreign currency balances.

Significant receipts are transmitted to Treasury monthly by the 12 Federal Home Loan Banks which are assessed amounts necessary to cover the FHFB's expected operating needs for the fiscal year.

Disbursements are made as necessary to fund the biweekly payroll and administrative costs of the organization. Due to of the nature of the FHFB's program, disbursements do not vary significantly from month to month.

H. Accounts Receivable

Accounts receivable consists of amounts owed to the FHFB by other federal agencies and the public. Amounts due from federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. As of September 30, 2008 and 2007 the balance in accounts receivable from the public was $3,080 and $2,189 respectively.

NOTE 1, continued

I. Property and Equipment, Net

Equipment acquisitions greater than or equal to $25,000 are capitalized and depreciated using the straight-line method over the estimated useful life of the asset. Additionally, for bulk purchases of similar items, which individually do not meet the test for capitalization, the acquisition is capitalized and depreciated if the depreciated basis of the bulk purchase is $100,000 or more. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, plant and equipment. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Furniture, Fixtures, and Equipment	6
Electronic Data Processing Systems	3
Data Handling Equipment (Excluding computers)	6
Software and Computer Programs	3
Real Property Improvements	30

Leasehold Improvement's useful life is equal to the remaining lease term or the estimated useful life of the improvement, whichever is shorter.

J. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received. As of September 30, 2008 and 2007 prepaid expenses were $10,840 and $10,671, respectively.

K. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which funding is available to pay amounts due.

Intragovernmental liabilities are claims against the FHFB by other federal agencies. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

L. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and the public.

M. Employee Leave and Benefits

Accrued Leave: FHFB employees are entitled to accrue annual leave and sick leave at a rate based on years of federal service. For most employees, annual leave may be accrued up to 240 hours each year. Senior Executive Service (SES) employees may accrue annual leave consistent with the rules for SES level employees. Any unused annual leave balance is paid to the employee upon leaving federal service, based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon separation, any unused sick leave of CSRS plan employees is creditable as additional time in service for the purpose of calculating an employee's retirement annuity. For FERS plan employees, unused sick leave is held indefinitely and may be used if rehired.

Health Benefits and Life Insurance: The FHFB, through programs established for all agencies by the federal government, offers its employees health and life insurance coverage. The cost of each is shared by the FHFB and its employees. The FHFB's fiscal year 2008 contribution to health and life insurance coverage was $1,061,688. The fiscal year 2007 contribution was $1,022,594. In addition, all employees have 1.45% of gross earnings withheld to pay for future Medicare coverage.

NOTE 1, continued

N. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because the FHFB will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

O. Retirement Plans

FHFB employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The employees who participate in CSRS are beneficiaries of FHFB's matching contribution, equal to 7% of pay, distributed to the employee's annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 elected to join either FERS and Social Security, or remain in CSRS. FERS offers a Thrift Savings Plan to which the FHFB automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For FERS participants, the FHFB also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the FHFB remits the employer's share of the required contribution.

The FHFB recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to the FHFB for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The FHFB recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

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

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

P. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Q. Imputed Costs/Financing Sources

Federal government entities often receive goods and services from other federal government entities without reimbursing the providing entity for all the related costs. In addition, federal government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The FHFB recognized imputed costs and financing sources in fiscal years 2008 and 2007 to the extent directed by OMB.

NOTE 1, continued

R. Contingencies

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

Litigation: As of the end of the period beginning on October 1, 2007 and ending on September 30, 2008, there was one case consolidating two civil actions previously filed by the same plaintiff pending in the U.S. District Court for the District of Columbia. The FHFB anticipates that following the discovery period, it will file a dispositive motion with regard to all claims that have not already been dismissed. Each civil action in the consolidated case has a potential loss ranging from $0 to $300,000. An unfavorable outcome is considered unlikely. As of July 30, 2008 (see Housing and Economic Recovery Act of 2008, Pub. L. No 110-289, 122 Stat. 2654), the FHFB's responsibilities were transferred to the newly created Federal Housing Finance Agency.

S. Reclassification

Certain fiscal year 2007 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

NOTE 2 • FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2008 and 2007 were:

	2008	2007
Fund Balances:		
Total Other Fund Types	$ 6,778,649	$ 6,727,173
Status of Fund Balance with Treasury:		
	2008	2007
Unobligated Balance - Available	$ 1,848,453	$ 2,151,043
Obligated Balance Not Yet Disbursed	4,930,196	4,576,130
Total	$ 6,778,649	$ 6,727,173

NOTE 3 • GENERAL PROPERTY AND EQUIPMENT

Property and equipment account balances as of September 30, 2008 and 2007 were as follows:

Schedule of Property and Equipment as of September 30, 2008

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Software	$ 3,397,262	$ 3,014,234	$ 383,028
Furniture & Equipment	1,995,950	1,385,937	610,013
Internal-Use Software In Development	19,689	-	19,689
Total	$ 5,412,901	$ 4,400,171	$ 1,012,730

Schedule of Property and Equipment as of September 30, 2007

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Software	$ 3,237,769	$ 2,820,907	$ 416,862
Furniture & Equipment	2,247,170	1,543,342	703,828
Internal-Use Software In Development	66,055	-	66,055
Total	$ 5,550,994	$ 4,364,249	$ 1,186,745

NOTE 4 • OTHER LIABILITIES

The accrued liabilities for the FHFB are comprised of program expense accruals, payroll accruals, and funded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to month-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to month-end but were not paid.

	2008	2007
Intragovernmental		
Payroll Taxes Payable	$ 173,207	$ 134,627
Total Intragovernmental	173,207	134,627
Accrued Payroll and Benefits	1,040,911	803,187
Capital Lease Obligations	906	6,097
Funded Annual Leave	1,946,683	1,694,232
Total Other Liabilities	$ 3,161,707	$ 2,638,143

All liabilities are current liabilities.

NOTE 5 • LEASES

Capital Leases

The FHFB leases a copier under a lease-to-own agreement. The lease term is 60 months. The minimum future lease payments and the present value of the net minimum lease payments are as follows:

Fiscal Year	Amount
2009	$ 457
Total Future Minimum Lease Payments	457
Less: Imputed Interest	3
Present Value of the Net Minimum Lease Payments	454
Less: Current Portion	454
Lease Obligation – Long Term	$ -

Operating Leases

The FHFB leases office space at 1625 Eye Street, Washington D.C., under a non-cancelable long-term lease that expires on June 30, 2015, and requires monthly payments. Contingency space at an undisclosed location is also leased with the lease expiring on January 31, 2009. Total rental payments for the fiscal years ended September 30, 2008 and 2007 were $3,556,495 and $3,290,278, respectively. The rental payments for the fiscal year ending September 30, 2007 were reduced by a tenant improvement allowance in the amount of $166,453. The minimum future payments for both locations, as required by the leases, are as follows:

Fiscal Year	Amount
2009	$ 3,425,166
2010	3,475,652
2011	3,602,273
2012	3,674,395
2013	3,747,925
Thereafter	6,732,958
Total	$ 24,658,369

NOTE 6 • OPERATING/ PROGRAM COSTS

Costs by major budgetary object classification as of September 30, 2008 and 2007 are as follows:

Budgetary Object Classifications	2008	2007
Personnel Compensation	$ 18,444,812	$ 17,131,753
Personnel Benefit	6,741,994	6,221,904
Benefits to Former Employees	7,677	3,231
Travel	1,460,191	1,157,875
Transportation	10,992	20,456
Rents, Communication & Utilities	4,204,312	4,006,525
Printing and Reproduction	(58,620)	248,930
Other Services	7,176,078	6,067,179
Supplies and Materials	215,695	258,488
Equipment	417,467	451,716
Total	$ 38,620,598	$ 35,568,057

The FHFB has incurred personnel costs of $593,140 for the activities and start up of FHFA.

NOTE 7 • IMPUTED FINANCING SOURCES

The FHFB recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the fiscal years ended September 30, 2008 and 2007, respectively, imputed financing was $1,021,928 and $1,059,121.

NOTE 8 • BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY08 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2009 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The 2009 Budget of the United States Government, with the Actual column completed for 2007, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 9 • UNDELIVERED ORDERS AT THE END OF THE PERIOD

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the fiscal years ended September 30, 2008 and 2007, undelivered orders amounted to $5,077,117 and $253,772, respectively.

NOTE 10 • RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 42,966,644	$ 34,292,116
Less: Spending Authority From Offsetting Collections and Recoveries	42,664,054	31,700,590
Obligations Net of Offsetting Collections and Recoveries	302,590	2,591,526
Net Obligations	302,590	2,591,526
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,021,928	1,059,121
Net Other Resources Used to Finance Activities	1,021,928	1,059,121
Total Resources Used to Finance Activities	$ 1,324,518	$ 3,650,647
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	$ 785,514	$ (493,323)
Resources That Finance the Acquisition of Assets	116,110	-
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	80,904	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 982,528	$ (493,323)
Total Resources Used to Finance the Net Cost of Operations	$ 341,990	$ 4,143,970
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	$ 417,164	$ 510,838
Revaluation of Assets or Liabilities	-	5,383
Other	(127,930)	(203,373)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	289,234	312,848
Net Cost of Operations	$ 631,224	$ 4,456,818

FEDERAL HOUSING FINANCE BOARD (FHFB)
2008 PERFORMANCE AND ACCOUNTABILITY REPORT
As of 11-5-08

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Federal Housing Finance Board (FHFB) issues a Performance and Accountability Report (PAR) to promote transparency and improve the public's understanding of how FHFB operates and what the agency has accomplished with its funding. This report provides a three-part summary of FHFB's operations for fiscal year (FY) 2008:

Management's Discussion and Analysis

- Explains FHFB's purpose and structure
- Highlights the year's accomplishments
- Describes challenges facing the agency
- Summarizes FHFB's performance
- Presents a financial summary for FY 2008

Performance Section

- Describes FHFB's planning process
- Presents performance information for each goal
- Describes FHFB's historical performance for the past three years
- Explains how FHFB achieved its goals

Financial Section

- Accounts for how FHFB spent its funds
- Describes how FHFB complied with relevant laws and regulations and used proper internal controls
- Includes letters and assurance statements from the Inspector General

The Federal Home Loan Banks (FHLBanks) provide critical liquidity to member financial institutions by making secured loans, known as advances, primarily collateralized by mortgages or mortgage-related assets. The FHLBanks also provide direct liquidity to the domestic market by purchasing mortgages and mortgage-backed securities and providing short-term unsecured credit to highly-rated domestic and international banking organizations. Unlike Fannie Mae and Freddie Mac, the FHLBanks are each cooperatives, owned and capitalized by their member institutions. Each FHLBank is jointly and severally liable for the consolidated debt obligations issued by the FHLBanks through the Office of Finance.

The Federal Housing Finance Board (FHFB) was created in 1989 and supervised the FHLBanks until the recently created FHFA assumed this role in October 2008. As the new regulator of the housing-related GSE's, FHFA will have to take into consideration the unique aspects of the FHLBanks, such as the nature of their capital structure, their cooperative form of organization, and the joint-and-several nature of the consolidated obligations issued by the FHLBanks.

The 12 FHLBanks have become critical providers of liquidity to financial institutions both large and small. Between June 30, 2007 and September 30, 2008, FHLBank advances to members increased by approximately $350 billion, from less than $650 billion on June 30, 2007, to nearly $1 trillion by September 30, 2008.

MISSION, VISION, AND VALUES

MISSION

The FHFB's mission is to ensure that the FHLBanks are safe and sound so they serve as a reliable source of liquidity and funding for the nation's housing finance and community investment needs.

VISION

To maintain the public's trust, the FHFB is dedicated to the highest professional standards of accountability and independence in carrying out its responsibilities for FHLBank supervision and oversight.

VALUES

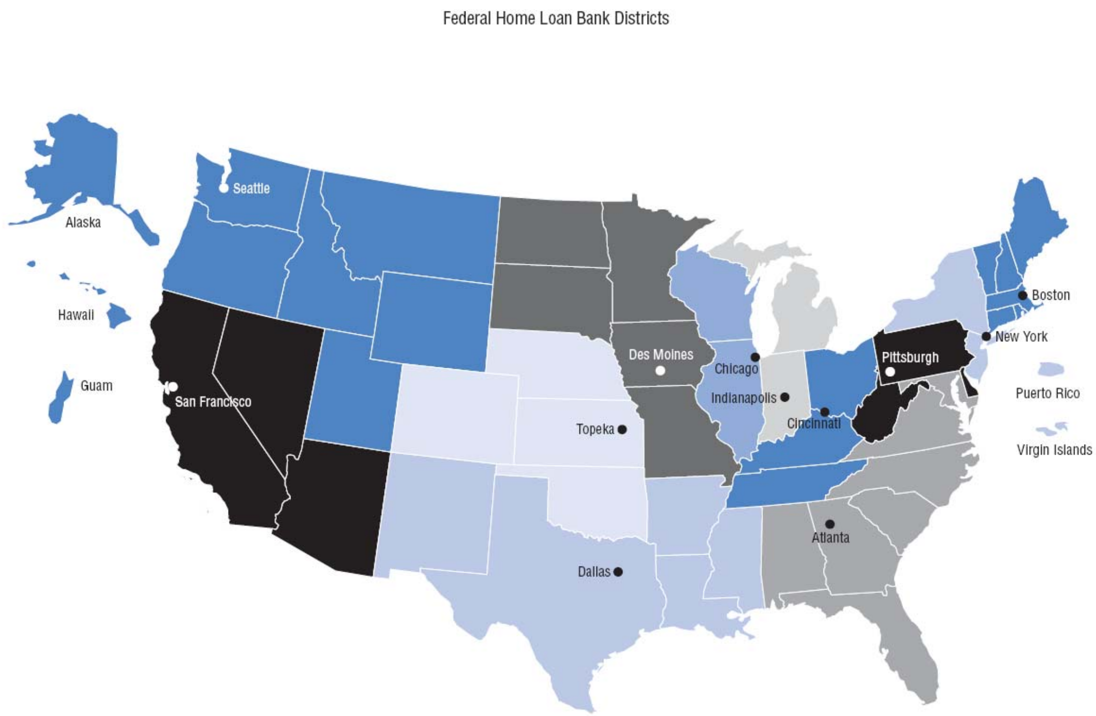
FHFB's core values underlie the mission and vision, which guide its organizational decisions and actions. The core values are:

- Independence. FHFB regulates the FHLBanks and the Office of Finance.
- Accountability. FHFB is a steward of the public's trust and will use its resources efficiently and in the public interest.
- Responsiveness. FHFB aligns its actions with its mission and responds promptly and effectively to emerging risks and opportunities in the finance system.
- Integrity. FHFB discharges its responsibilities fairly and adheres to the highest standards of ethical conduct.
- Excellence. FHFB strives for excellence in carrying out its responsibilities and recognizes the contributions of employees who demonstrate the highest professional standards in their work.

THE FEDERAL HOME LOAN BANK SYSTEM

FHLBanks were created by the Federal Home Loan Bank Act of 1932 (referred to as the Bank Act) to stimulate mortgage finance and provide liquidity to credit markets. Until 1989, FHLBank members consisted primarily of savings and loan associations engaged in home financing. In 1989, Congress extended eligibility for FHLBank membership to commercial banks and federally insured credit unions (subject to a home financing requirement). In 1999, Congress made FHLBank membership voluntary for all types of eligible institutions.

FEDERAL HOME LOAN BANK DISTRICTS



FHLBank Districts

There are 12 FHLBank districts across the nation. Each district covers at least two whole states or U.S. territories.

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

The FHLBanks are privately capitalized GSEs. They provide wholesale credit to members and certain nonmembers to be used for mortgage lending and related activities. In addition, the FHLBanks must promote housing and community investment finance. The FHLBanks provide both short- and long-term, flexible financing to more than 8,100 member financial institutions around the country. As of September 30, 2008, the FHLBanks had combined assets exceeding $1.4 trillion.

The FHLBanks are funded principally by the issuance of consolidated obligations of the FHLBanks consisting of bonds (usually with original maturities of one year or longer) and discount notes (with original maturities of less than one year and sold at a discount).

Funding Sidebar

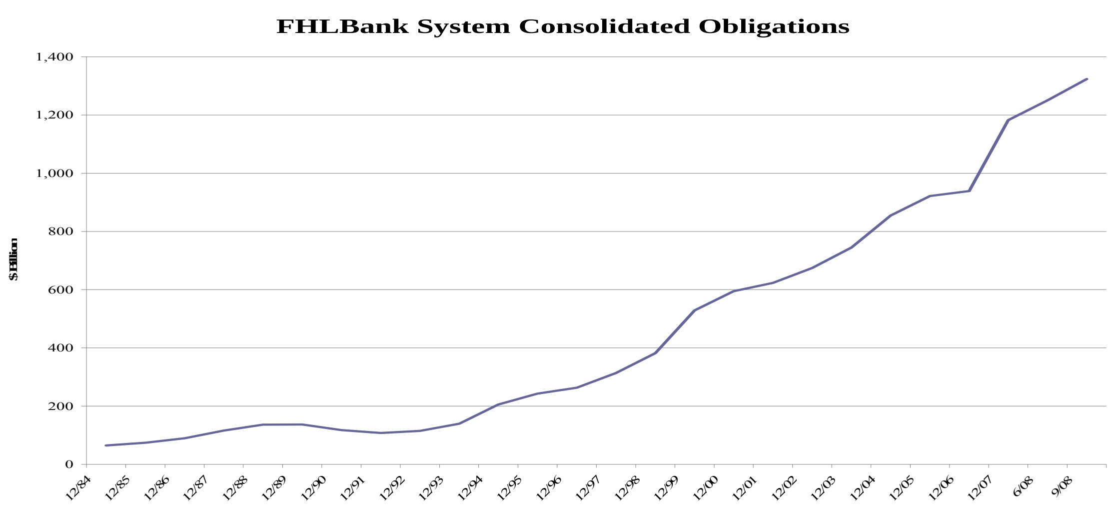
The principal liabilities of the FHLBanks are “consolidated obligations.” These are unsecured debt obligations sold in the public capital markets and are the joint-and-several obligation of all the FHLBanks. At September 30, 2008, total consolidated obligations outstanding of $1.3 billion consisted of *bonds* (original maturity usually of one year or longer) of $876.6 billion and *discount notes* (original maturity shorter than one year and sold at a discount) of $446.8 billion. Joint-and-several liability means that the other 11 FHLBanks are liable for the payment of principal and interest on a consolidated obligation for which another FHLBank is the primary obligor if that FHLBank is unable to fulfill its obligations.

All FHLBank consolidated obligations are issued through the FHLBanks’ Office of Finance (OF) . OF makes extensive use of technology, including Internet-based auctions to sell debt. Located in Reston, Virginia, OF is the only joint office of the FHLBanks. Its principal responsibilities are issuing and servicing consolidated obligations on behalf of the FHLBanks. OF serves as an agent of the FHLBanks; it has no portfolio of its own and issues debt only upon the specific request of an FHLBank.

OF auctions discount notes every Tuesday and Thursday in the standard maturities of 4, 9, 13, and 26 weeks. It also has a “window” program where the OF posts rates each day for a range of maturities on discount notes going out one year.

OF issues a wide variety of bonds for the FHLBanks. It issues both callable and non-callable bonds. While most bonds have fixed interest rates, some bonds have floating rates and others have complex coupon-payment terms, such as step-up bond and range bonds. Individual bond issues may be as small as $10 million or as large as $10 billion.

All consolidated obligations are issued through underwriters except for a very small amount of direct placements. The OF has qualified approximately 90 firms to underwrite and sell bonds; there is a 15-member discount note selling group. The underwriter is obligated to purchase the consolidated obligations; it acts as a principal and not as an agent of the OF or the FHLBanks.



Pull out Quote:

The Office of Finance is the only joint office of the FHLBank System and its fiscal agent. The principal role of OF is to issue and service consolidated obligations on behalf of the 12 FHLBanks.

FHLBanks have been able to raise funds at rates about one-fourth of one percent higher than comparable obligations issued by the U.S. Treasury because of their status as government-sponsored enterprises. Since mid-2007, FHLBank bonds have traded at spreads of more than one percent above comparable obligations issued by the U.S. Treasury. In September 2008, the interest rate on bonds issued by the FHLBanks that mature in two years was 1.8 percent above the rate on comparable obligations issued by the U.S. Treasury.

Members use short- and long-term advances to fund lending and maintain liquidity for their operations. Members can use long-term advances only to support residential housing finance or, in the case of a community financial institution, to also support lending to small businesses, farms, and agricultural businesses. Most collateral supporting advances are mortgage assets.

FHLBanks also purchase qualifying mortgage loans from members under acquired member asset programs. Under these programs, the FHLBanks manage the market risk associated with the loans while members bear most of the credit risk through a loss-sharing arrangement or the purchase of mortgage insurance for the loans sold to the FHLBank. The FHLBanks no longer emphasize these programs. As a result, mortgage loan balances at the FHLBanks have declined to $89 billion, well below the peak of $115 billion reached at the end of 2004.

KEY FEDERAL HOME LOAN BANK FINANCIAL STATISTICS
(In Millions)

	Sep 30 2008	Dec 31 2007	Dec 31 2006
Advances to Members	$1,011,662	$ 875,061	$ 640,682
Mortgage Loans, Net	87,918	91,611	97,974
Investments	316,781	301,110	275,267
Other Assets	13,226	8,106	7,215
Total Assets	$1,429,637	$1,275,888	$1,021,138
Consolidated Obligations	$1,323,410	$1,181,972	$ 938,762
Deposits and Borrowings	28,825	23,355	21,186
Other Liabilities	20,109	16,935	16,155
Capital	57,293	53,626	45,035
Net income	$ 2,137*	$ 2,808	$ 2,808

*Reflects income for the first nine months of 2008

Members have access to several programs to support affordable housing and community investment activities. The Bank Act requires each FHLBank to contribute 10 percent of its annual net income to fund the Affordable Housing Program (AHP), subject to a requirement that the aggregate allocation be at least $100 million. In recent years, aggregate AHP contributions have greatly exceeded the minimum requirement of $100 million.

Since 1989, FHLBank affordable housing programs have awarded members AHP subsidies as grants or subsidized interest rates on advances to expand homeownership and rental opportunities for low- or moderate-income households. AHP funds subsidize the cost of owner-occupied housing targeted to households with incomes at or below 80 percent of area median income and rental housing in which at least 20 percent of the units are reserved for households with incomes at or below 50 percent of area median income. The subsidies can be used for construction, purchase or rehabilitation of housing. AHP projects address a wide range of housing needs. For example, since the program's inception, AHP has helped to subsidize housing for:

- Very low-income renter households;
- Special needs households, including the elderly, the disabled, and victims of domestic violence;
- Homeless individuals and families;
- Households in rural communities and urban areas.

Each FHLBank administers two AHP programs, a mandatory competitive application program and a voluntary homeownership set-aside program.

SIDEBAR:

Each FHLBank voluntarily offers at least one homeownership set-aside program. Under these set-aside programs, FHLBanks may set aside up to the greater of $4.5 million or 35 percent of its AHP contribution each year to assist low- and moderate-income households purchase homes, provided that at least one-third of the Bank's set-aside allocation is made available to assist first-time homebuyers. Members obtain the AHP set-aside awards from the FHLBank and then use them as grants to eligible households. Set-aside awards may be used for down payment, closing cost, counseling, or rehabilitation assistance in connection with the household's purchase or rehabilitation of an owner-occupied unit. Each Bank sets its own maximum grant amount, which may not exceed $15,000 per household.

The competitive application programs generally comprise at least 65 percent of an FHLBank's annual statutory AHP contribution.

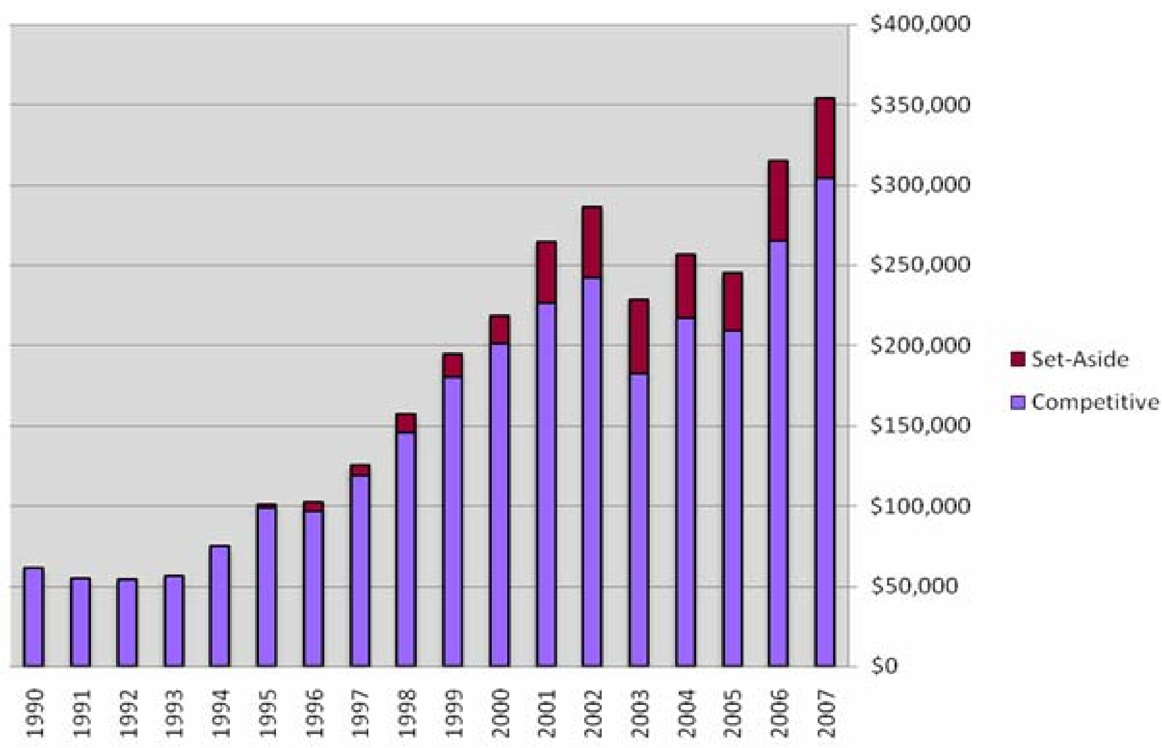
Under the competitive application program, FHLBank member financial institutions submit applications on behalf of one or more sponsors of eligible housing projects to their FHLBank. Projects must meet certain statutory and regulatory requirements under this program. Each FHLBank establishes a point allocation system for scoring applications based on nine regulatory criteria. In each funding round, an FHLBank awards AHP subsidies to projects, starting with the highest scoring application, until it exhausts the total amount available.

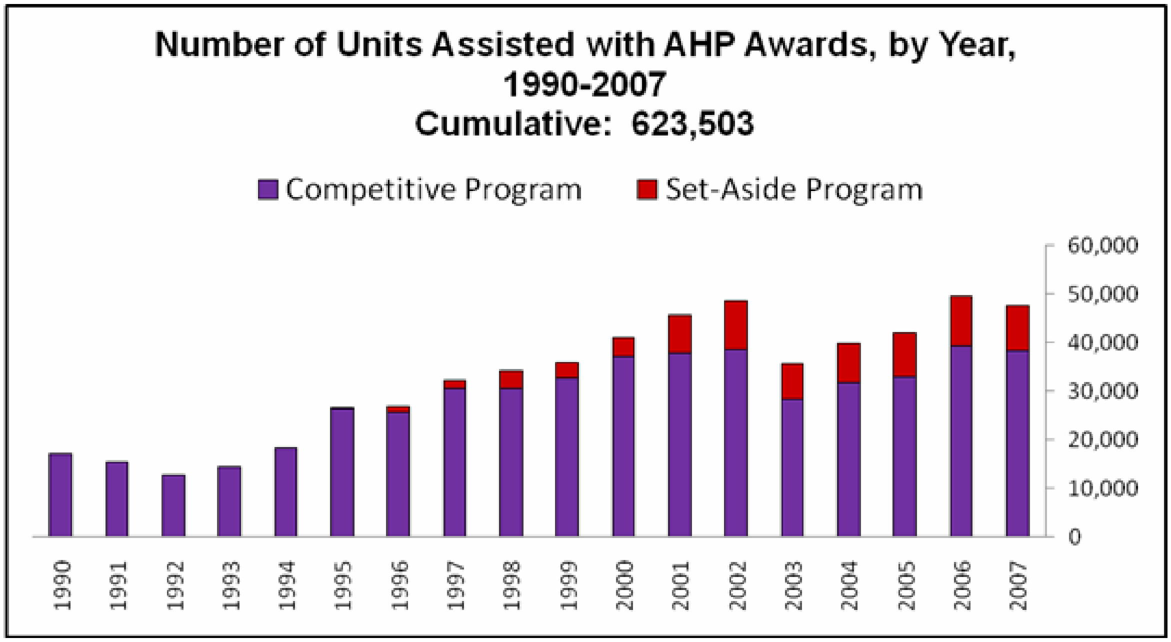
From 1990 through 2007, FHLBanks funded more than $3.2 billion in subsidies for more than 623,000 housing units.

AHP Overview

	Competitive Application Program	Set-Aside Program
Time Period	1990-2007	1995-2007
Units Receiving Assistance (in thousands)	556	67
Total Funds Awarded ($ in millions)	$2,974	$ 297
Average Subsidy per Unit	$5,039	$4,167

Affordable Housing Program (AHP)
Amount of AHP Subsidy Awarded, by Year, 1990-2007
Cumulative: $3.2 billion





THE FEDERAL HOUSING FINANCE BOARD

FHFB was established as an independent agency by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. It was the successor agency to the former Federal Home Loan Bank Board, which had been established by the Bank Act. FHFB's statutory mandate was to ensure that FHLBanks are financially safe and sound with adequate capital, carry out their housing finance mission, and are able to raise funds in the capital markets. In addition to supervising the FHLBanks, FHFB had regulatory authority and supervisory oversight responsibility for the Office of Finance.

FHFB was governed by a five-member Board of Directors. Four directors were appointed by the President and confirmed by the Senate and were required to have extensive experience or training in housing finance or a commitment to providing specialized housing credit. The fifth member was the Secretary of the U.S. Department of Housing and Urban Development.

Figure X shows the FHFB organization chart as of September 30, 2008. The FHFB was organized into five Offices:

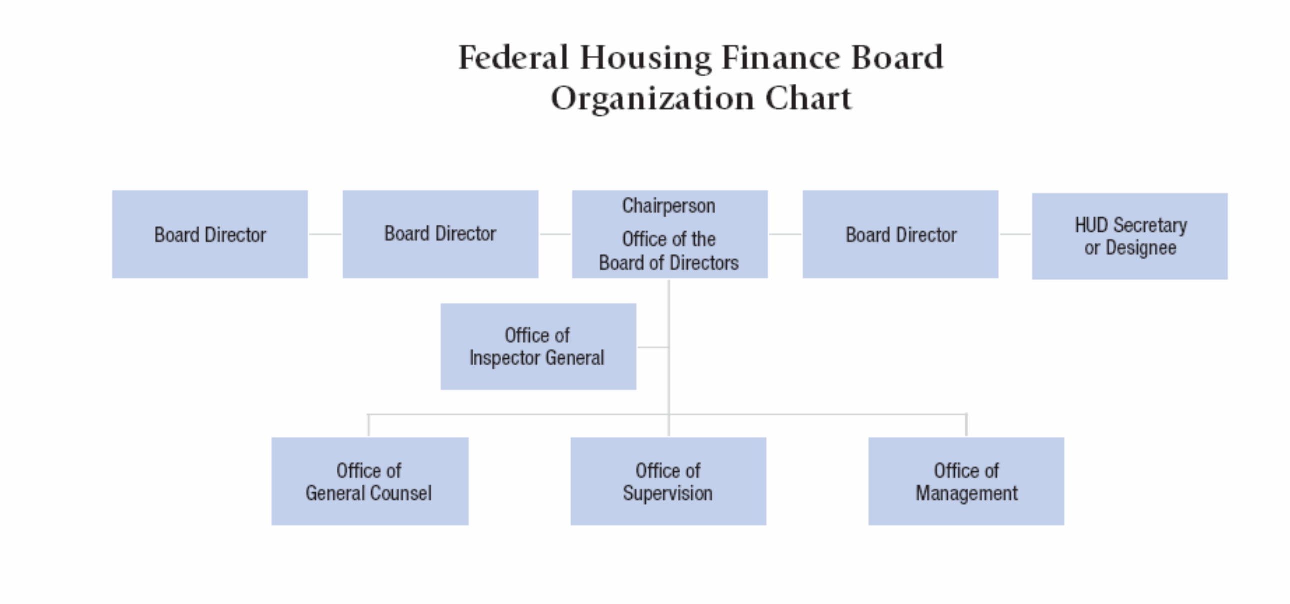
The *Office of the Board of Directors (OBD)* set the agency's strategic direction and approved policies and regulations. By delegation from the full board, the chairperson supervised management and policy execution. The Board generally met monthly in public sessions. The agency's chief information officer, who was responsible for the FHFB technology and information systems, reported to the chairperson.

Office of Supervision (OS) was responsible for the supervision and examination of the FHLBanks and the OF. OS performed this function through annual on-site examinations, periodic visitations, and off-site monitoring. Other OS responsibilities included supervisory policy and program development, regulatory analysis and development, and economic research and analysis.

Office of General Counsel (OGC) provided legal support and guidance on interpretations of laws, regulations, and policies to FHFB officials. OGC prepared legal documents on behalf of FHFB and represented the agency in judicial and administrative proceedings. OGC managed the FHFB's ethics and Freedom of Information Act programs and acted as the secretary to the Board.

Office of Management (OM) was the principal advisor to the Chairperson of the FHFB on management and organizational policies and was responsible for the FHFB's administrative management programs. This included responsibility for the FHFB's finance and accounting, budget, personnel, payroll, contracting and procurement, and facilities and property management.

Office of Inspector General (OIG) operated pursuant to the Inspector General Act of 1978, as amended. OIG conducted and supervised audits and investigations related to FHFB programs and operations, and recommended policies to promote economy, efficiency, and effectiveness, and to prevent and detect fraud, waste, and abuse.



On July 30th, 2008, the President signed the Housing and Economic Recovery Act of 2008 (HERA), which created a new regulator for the 14 housing-related GSEs – the 12 FHLBanks, Fannie Mae and Freddie Mac. The new agency, the Federal Housing Finance Agency, has responsibility for the safety and soundness of the government-sponsored enterprises as well as oversight of the affordable housing missions. HERA recognized the unique aspects and functions of the FHLBanks, Fannie Mae and Freddie Mac by creating three divisions: the Division of Enterprise Regulation, the Division of Federal Home Loan Bank Regulation and the Division of Housing Mission and Goals. The FHFB and OFHEO remain in existence to wind up the affairs of both agencies and will cease to exist on July 29, 2009.

PRIORITIES, RESOURCES, AND PERFORMANCE MEASURES

The FHFB's planning, budgeting, and performance management process sets the strategic direction, determines planned activities and resources, measures and monitors performance throughout the year, and performs an annual performance assessment. These components reflect a continuous cycle of performance management centered on outcomes. The agency uses annual performance assessments to analyze performance and improve effectiveness and efficiency.

The FHFB produces three main reports as a result of the agency performance management process. The agency's Strategic Plan, covered a five year period, set overall strategic goals for the agency. The agency produced an Annual Performance Budget, which described how it allocated its resources in the upcoming fiscal year to achieve the strategic priorities outlined in the Strategic Plan. This is the agency's last annual Performance and Accountability Report, which summarized the agency's success during the fiscal year in meeting its goals and objectives as set forth in the Annual Performance Budget for that fiscal year and FHFB financial and program performance information.

In its fiscal year 2007-2012 Strategic Plan, the FHFB established two strategic goals that guide its operation. The Strategic Plan is available on the agency's website (www.fhfb.gov). The two strategic goals are:

1. The FHLBanks were to operate safely and soundly.

2. The affordable housing and community investment programs of the FHLBanks were to operate effectively and efficiently.

For each strategic goal, the FHFB established strategic outcomes to indicate the degree to which it is achieved the stated goal; annual performance goals to determine the degree to which the FHLBanks are acted promptly to correct deficiencies identified by the FHFB; and annual performance measures as indicators of how well the FHFB is carried out its mission to ensure the safe and sound operation of the FHLBanks.

STRATEGIC GOALS	STRATEGIC OUTCOMES	ANNUAL PERFORMANCE GOALS	ANNUAL PERFORMANCE MEASURES
1. The FHLBanks operate safely and soundly.	1. The FHLBanks effectively identify and manage risk. 2. The FHLBanks remain adequately capitalized, and able to raise funds in the capital markets.	1. The FHLBanks address principal safety and soundness examination findings to the satisfaction of the FHFB prior to the next examination. 2. The FHLBanks correct supervisory or compliance issues within required timeframes. 3. The FHLBanks' combined financial statements comply with applicable laws, rules, and regulations.	1. Conduct all safety and soundness activities, including annual examinations, visitations, and off-site monitoring. 2. Review safety and soundness examination findings with the FHLBanks semiannually to ensure the FHLBanks are making progress to remedy identified shortcomings. 3. Conduct on-site examination of OF and review annual and quarterly combined statements issued by OF for compliance with disclosure requirements.
2. The FHLBanks' affordable housing and community investment programs operate effectively and efficiently.	1. The FHLBanks foster the development of owner-occupied and affordable rental housing for eligible very low-, low-, and moderate-income households.	1. The FHLBanks address principal affordable housing examination findings to the satisfaction of the FHFB prior to the next examination. 2. The FHLBanks distribute affordable housing funds as approved in the AHP application.	1. Conduct all affordable housing activities, including annual examinations and off-site monitoring. 2. Review affordable housing and community investment examination findings with the FHLBanks semiannually to ensure the FHLBanks are making progress to remedy identified shortcomings. 3. Use examinations to review program effectiveness as well as compliance with the Bank Act, FHFB regulations, and FHLBank policies.

PERFORMANCE SUMMARY

The FHFB achieved all of its performance goals in FY2008. The agency continued its efforts to strengthen its supervisory program through more intense integration of its off-site monitoring program and tools into the examination program. As part of these efforts, the FHFB formalized the organization of its OS into two principal functional areas – Examinations and Off-Site Monitoring and Analysis.

The following list summarizes key FHFB achievements during FY2008.

MAJOR ACCOMPLISHMENTS BY STRATEGIC GOAL

STRATEGIC GOAL 1: THE FEDERAL HOME LOAN BANKS OPERATE SAFELY AND SOUNDLY

- Conducted safety and soundness examinations at all 12 FHLBanks and OF.
- Appointed the full slate of public interest directors at each FHLBank.
- Adopted a resolution expanding the ability of the FHLBanks to invest in mortgage-backed securities in order to provide support to the housing markets.
- Monitored negotiations between the FHLBanks of Chicago and Dallas regarding a merger of the two FHLBanks and evaluated the public policy, business, and accounting implications of the proposed transaction.
- Entered into a cease-and-desist order with the FHLBank of Chicago, following cessation of merger discussions with the FHLBank of Dallas, to strengthen the FHLBank's capitalization and to restrict payment of dividends or redemption or repurchase of member capital stock.
- Amended the cease-and-desist order with the FHLBank of Chicago to permit repurchase or redemption of newly-issued capital stock to support new advances, subject to certain conditions set forth in the order.
- Developed procedures for creating market risk and modeling profiles for FHLBanks based on off-site monitoring and on-site interviews.
- Revised the risk modeling program to provide more exacting data that is widely used to evaluate FHLBank conditions.
- Created and implemented examiner guidance and work programs for review of advances and collateral risk management.
- Completed revisions to the safety and soundness examination manual that included guidance on the preparation of examination work papers.
- Conducted examiner training on revisions to the safety and soundness and work programs.
- Issued the semiannual FHLBank profile books, quarterly and monthly risk monitoring reports, weekly reports of advance levels to monitor credit conditions, reports on financial markets, data, and developments and daily monitoring and reporting of FHLBank liquidity positions.
- Issued three advisory bulletins addressing certain aspects of fair-value accounting, temporary authority to purchase additional agency MBS, and requirements to implement policies and practices that establish risk limits for, and mitigation of, credit exposure on nontraditional and subprime mortgage loans.
- Established guidance for minimum liquidity requirements for the FHLBanks in light of adverse economic conditions.

- Managed and coordinated the execution of the GSE Credit Facility for the 12 FHLBanks. The GSE Credit Facility will serve as a lender-of-last-resort to assure investors in GSE debt that the FHLBanks will be able to meet obligations as they come due, thereby mitigating rollover risk for those investors. The facility is created pursuant to authorities contained in the Housing and Economic Recovery Act of 2008 to promote financial market stability and liquidity.
- Expanded the use of a stylized model of FHLBanks (i.e., "Model Bank") in examinations and in support of enforcement actions.
- Continued the review of the retained earnings analysis for each of the FHLBanks to evaluate whether the level of retained earnings at each FHLBank is adequate.
- Developed guidance on subprime or alternative mortgage-backed securities that instructed FHL Banks regarding the purchase of whole loans, the purchase of MBS, and the acceptance of collateral in light of federal financial institution regulatory agencies' guidelines with respect to subprime and nontraditional mortgage loans.
- Began using credit risk modeling techniques to assess the credit quality of private label MBS during the examination process and to establish asset classification standards for examiners.
- Monitored ratings actions by Nationally Recognized Statistical Rating Organizations (NRSROs) and identified sub-investment grade securities ahead of NRSRO rating downgrades.
- Analyzed MBS holdings of FHLBanks, including monitoring, rating and pricing information for private-label MBS held by FHLBanks supporting the increase in MBS authority to six times capital.
- Initiated and substantially completed a horizontal review of the FHLBanks' prepurchase analyses, postpurchase monitoring, and corporate governance of its mortgage-backed securities.
- Implemented examination process quality assurance reviews and conducted reviews for two examinations.
- Enhanced data management and information systems for the monthly and quarterly collection of FHLBank financial data (CRS.net).
- Developed a secure bank portal for transmitting FHLBank data and documents in a structured and auditable method of review by examiners, economists and analysts.
- Developed a reporting and analysis intranet page to better coordinate the availability of various reports and information for analytical purposes;
- Developed and secured peer review for revised methodology to be used to generate market risk-based capital requirements for the FHLBanks.

STRATEGIC GOAL 2: THE AFFORDABLE HOUSING AND COMMUNITY INVESTMENT PROGRAMS OF THE FHLBANKS OPERATE EFFECTIVELY AND EFFICIENTLY.

- Conducted affordable housing program examinations at 11 FHLBanks. The FHLBank of Chicago was removed from the AHP examination schedule due to safety and soundness issues being addressed by the FHFB.
- Developed an AHP examination manual (in draft) and held AHP examiner training on assessing FHLBanks' implementation plans.
- Conducted examiner training on revisions to the how to assess FHLBanks implementation plans.

- Completed an AHP Waiver Resolution for the FHLBank of San Francisco to use a portion of its homeownership set-aside allocation for restructuring or refinancing certain adjustable and nontraditional mortgage loans made to low and moderate income households.
- Prepared interim final AHP rule authorizing the temporary the allocation of set-aside funds for refinancing or restructuring troubled mortgage loans to low- and moderate-income households.
- Completed the first upload of AHP set-aside and Community Investment Cash Advance Program (CICA) data elements, which will assist the offsite monitoring program and examination of AHP examinations.
- Completed AHP examiner guidance on the use of public housing authority income documentation information to verify compliance with AHP income requirements.
- Prepared initial designs for monitoring programs to evaluate on an ongoing basis the FHLBanks' Affordable Housing Programs, their capital level and composition, credit risk management, operations risk, and corporate governance at the FHLBanks.

THE YEAR IN REVIEW

The FHFB's FY2008 accomplishments were concentrated in the following areas:

***Ongoing Supervision*.** The FHFB's FY2008 operating expenses allocated $29.6 million, which is 81.6 percent of the total agency budget, to undertake its safety and soundness supervisory program. To fulfill their housing finance mission, the FHLBanks offer advances, mortgage purchase programs, and other services. These activities result in the FHLBanks assuming varied and complex market, credit, and operational risks that they must evaluate and manage. The FHFB's safety and soundness supervisory program evaluated and monitored the FHLBanks condition and earnings and whether the risk management processes at each FHLBank effectively reflect and control the FHLBank's level of risk.

The FHFB's FY2008 budget included $6.7 million to undertake its affordable housing and community investment supervisory program. FHFB examiners monitored the Banks' compliance with statutory and regulatory requirements for affordable housing and community investment, evaluated program operations and controls and assessed program effectiveness. Resources were devoted to AHP reviews for both the competitive application program and the homeownership set-aside program.

During FY2008, the FHFB's supervisory program focused on (i) activities, operations, and strategies that pose risks to the safety and soundness of the FHLBanks and (ii) the FHLBanks' effectiveness in carrying out their housing finance mission, which included, but was not limited to, their affordable housing and community investment programs. The following processes were central to the FHFB's application of a risk-based supervisory approach: (1) identification of market, credit, and operational risks; (2) use of common methods of evaluation to measure these risks; and (3) determination of whether the policies, systems, and processes employed by each FHLBank and OF enable its Board of Directors and senior management to manage existing and prospective levels of risk.

At the conclusion of an on-site examination, FHFB examiners discussed their findings with the FHLBank's senior management. Through communication of examination findings, the agency influenced the practices of the FHLBanks. When the examination findings were raised to a level of significance, the FHFB may have also used informal and/or formal enforcement actions to correct an FHLBank's practices, conditions, or violations of law and/or regulations. In FY 2008, the FHLBank of

Chicago entered into a voluntary cease and desist order with the FHFB designed to stabilize and strengthen that FHLBank's capital.

Risk-Focused Supervision.

SIDEBAR:
A risk-focused examination is designed to target examination resources on bank functions that pose the greatest risk exposure, thereby increasing the effectiveness of the examination process without requiring increased resources.

As had been its practice, during 2008, the FHFB's examinations reflected the most pressing risks facing the FHLBanks. For example, examiners and market risk modeling staff assessed the adequacy and prudence of the FHLBanks' market risk limits, as well as the adequacy of their retained earnings levels. During 2008, examiners and individuals from the market risk modeling and risk analysis and research divisions analyzed the risks inherent in the Banks' private-label mortgage-backed securities holdings. The agency also investigated the FHLBanks' policies and practices for collateral supporting advances. Examiners followed up on adverse findings from 2007 examinations, paying particular attention to findings related to operational risk and information technology, derivatives practices, capital, and liquidity management. This required greater integration between risk modeling and capital markets examination staff.

In October 2007, the FHFB, with the consent of the FHLBank of Chicago Board of Directors issued a cease and desist order pertaining to their capital adequacy, redemption and repurchase of capital stock, risk management, hedging policies and procedures, capital structure plan, and dividends. While the FHLBank of Chicago had been and remains in compliance with this order, the FHFB had not accepted the FHLBank of Chicago's submissions to satisfy concerns regarding risk management, hedging and the bank's capital plan. The FHLBank of Chicago delayed, with FHFB concurrence, implementing a new capital structure until the first or second quarter of calendar year 2009, primarily depending on its ability to show net profits. The cease and desist order was amended on July 23, 2008 by the FHFB to allow the repurchase or redemption of newly issued capital stock from any member meeting certain conditions. This amendment enabled the FHLBank of Chicago to increase its level of advances.

Off-Site FHLBank Monitoring and Analysis. FHFB analysts reviewed FHLBank activities, financial condition, fiscal and operating performance, and regulatory compliance, and assessed market developments that may have affected the FHLBanks. These analysts also worked closely with the examination staff to establish the scope of examination of the FHLBanks and reviewed the financial condition and performance of the FHLBanks at the on-site examinations. FHFB analysts also prepared analytical papers on market conditions and trends and their effects on the FHLBanks' condition, profitability, and stability.

In FY2009, FHFA analysts will work to expand and systematize data collection to improve FHFA's off-site monitoring capacity. These efforts include more frequent collection of interest rate data and the collection of collateralized obligations (CO) data from OF, expanded market risk sensitivity data collection via CRS.net supplemented by on-site interviews with key FHLBank personnel and simulation results from the "Model Bank," to produce a market risk profile for each of the 12 FHLBanks. In addition, the collection of a wide range of data on FHLBank practices will be used to support the monitoring programs evaluating credit risk, operational risk, AHP programs, capital level and composition, and corporate governance at the FHLBanks.

Economic and Financial Analysis. The principal means for providing support to the examinations is through evaluations of the quality of risk modeling at the FHLBanks and through the research and analysis of systemic trends affecting the FHLBanks and the FHLBank System. The staff contributes to each report of examination. The primary means for providing program analysis and regulatory and policy development support is through statistical and other quantitative analyses of factors influencing FHLBank performance. Additionally, research and analytical support for FHFB regulatory or policy initiatives, including longer-term policy-oriented research is used to support regulatory and supervisory initiatives. The staff also prepares semiannual profiles of the 12 FHLBanks and the FHLBank System, along with periodic reporting of trends or market developments affecting the FHLBanks. FHFB monitors trends affecting housing finance and the housing industry.

In FY2009, staff will continue development of models that will simulate the risks and expected returns of an FHLBank with similar asset, liability, and hedging strategies. The research necessary to update the FHFB's risk-based capital standards also continues into FY2009. As part of this work, economists will also be examining the potential for a link between risk-based capital and the appropriate level of retained earnings at an FHLBank. Another part of the modeling work will involve a continuation in and enhancement of our efforts to model the credit risk in private-label MBS held by the FHLBanks.

Quality Assurance. In FY 2008, the Office of Supervision's Quality Assurance (QA) unit conducted periodic reviews of examination work flows and products and developed written procedures for conducting objective assessments of the office's supervisory function. The purpose of the reviews is to identify potential opportunities to improve or enhance existing practices. QA staff launched the first two formal reviews of FHFB examinations to assess their quality, accuracy, completeness, organization, and conformance with agency policies. The QA unit identified several potential process improvements now under consideration, including new or revised product templates, proposed changes to the examination manual, and potential reports such as a quarterly report of regulatory enforcement actions on FHLBank members.

Policy and Regulations. During FY2008, the FHFB approved a two-year expansion of the authority of an FHLBank to purchase mortgage-backed securities. This expanded authority allows an FHLBank to purchase additional MBS issued by Fannie Mae or Freddie Mac (or private-label MBS made up entirely of Fannie Mae or Freddie Mac MBS) by an amount equal to three times the FHLBank's capital. The FHFB issued guidance on the application of the federal financial institutions regulatory agencies' interagency guidance on nontraditional and subprime residential mortgage lending to the FHLBank's acquired member assets, private-label mortgage-backed securities, and collateral securing advances. The interagency guidance was originally issued by the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Office of Thrift Supervision, and National Credit Union Administration. Monitoring related developments in this area will remain a priority in FY2009. Also in FY2008, the FHFB issued examiner guidance on procedures for reviewing private-label mortgage-backed securities and the use of public housing authority income documentation to verify compliance with affordable housing program income requirements, as well as on examination procedures covering areas such as examination scoping and work program completion. In FY2009, efforts will continue to reassess and refine the agency's regulatory infrastructure, including the development of various regulations and reports required by HERA. For example, as part of the newly created FHFA, staff members from the FHFB and OFHEO will formulate new rules on prudential standards, enforcement powers, prompt corrective action and receivership. The safety and soundness examination manual will also be updated.

New Business Activities. When an FHLBank wants to engage in a new business activity, it must notify the FHFB for approval to engage in the proposed activity. The FHFB assesses whether the proposed activity is legal, identifies the risks associated with the activity, and evaluates the ability of the FHLBank to manage those risks. During FY2008, the FHFB reviewed multiple new business activity notices including a request on behalf of the Mortgage Partnership Finance FHLBanks to purchase and concurrently sell mortgages to Fannie Mae and a request by an FHLBank to create an open-ended mutual fund to make investments that allow its members in a particular state to meet certain Community Reinvestment Act requirements. These proposals were approved and will be reviewed as part of the next on-site examination.

Combined FHLBanks Financial Statements. Each FHLBank is subject to the periodic disclosure requirements in the Securities Exchange Act of 1934, which include public disclosures and filings relating to the Bank's financial condition, results of operations, trends, or uncertainties affecting its business, and management's assessment of its business and financial condition, including supporting financial information and certifications. OF prepares the combined FHFB assesses whether the combined financial statements comply with the agency's regulations and policies.

Data Management and Monitoring. FY2008 was a transitional year for the management and monitoring of data collected from the FHLBanks. FHFB continued to collect information in accordance with the requirements outlined in the *Data Reporting Manual*, significant projects to rebuild the membership database and expand the Call Reporting System (CRS) were begun, and FY2009 projects such as the renovation of the Acquired Member Asset database were moved forward into FY2008 to address the mortgage reporting and housing goal requirements of the HERA.

In FY2009, FHFA will continue efforts to expand CRS and renovate the membership database. In addition, one major objective will be making significant enhancements to the acquired member asset (AMA) database. In addition, the Division will continue work on both dashboard metrics to address its expanded off-site monitoring role and extending its reporting efforts.

KEY EXTERNAL FACTORS

External conditions beyond the control of the organization can affect the performance of the FHFB and the FHLBanks. These factors include developments in capital and housing markets, broader macroeconomic forces affecting interest rates or national or regional activity, and regulatory and legislative initiatives that can change the environment in which the FHLBanks operate. Regardless of the source of the influences on FHLBank performance, the FHFB had to respond promptly to ensure that the FHLBanks met challenges.

Significant events, influences, and risks that may affect the priorities and expenditure of FHFB funds are dependent on a variety of issues, from possible areas of risk identified during FHLBank examinations requiring resources not originally budgeted or planned for, to the volatility of the secondary mortgage markets and financial banking industry in general. Some of the factors that influence the priorities and expenditure of FHFB funds include:

Legislation. HERA combined FHFB, OFHEO and HUD's GSE mission team.

Developments in Banking and Financial Markets. The housing market, financial sector, and banking developments of the past year were the most dramatic since the Great Depression. The FHLBanks, created in the depth of the Depression to provide liquidity to the banking industry and to support the mortgage market, played a critical role in this most recent crisis. Demands for advances increased dramatically over the past year at most of the FHLBanks. In addition, the FHFB issued a temporary authorization for the FHLBanks to purchase additional MBS in an effort to further support mortgage markets.

The FHLBanks' borrowing costs went up significantly as bond investors shifted toward debt issued and backed directly by the U.S. Department of the Treasury. Access to term debt is more costly and the volume is more restricted than in the past. In addition, a number of member financial institutions have either been acquired or have failed. The direct result on the FHLBanks from these banking failures and restructuring moves has been limited. Still the FHFB responded to events in a number of ways:

- First, the FHFB initiated and is still conducting a system-wide analysis of the FHLBanks' collateral practices and policies to ensure the FHLBanks have accurate values for the collateral they accept to support advances.
- Second, the FHFB launched, and is still conducting a system-wide analysis of the FHLBanks' policies and practices associated with purchases and management of mortgage-backed securities.
- Third, the FHFB has investigated the process the FHLBanks use to account for mortgage-backed securities and the potential for those securities to be other than temporarily impaired.
- Fourth, the FHFB closely monitored the process the FHLBanks use to secure adequate credit protection for the mortgages they purchase from members under the Acquired Member Asset programs.
- Finally, the FHFB required the FHLBanks to re-evaluate their retained earnings and liquidity holdings in light of the current crisis.

Economic Variables. Adverse economic conditions currently affecting the nation's financial and mortgage industry, including the stock market, foreign banks, high unemployment, have the potential to affect the financial condition of the FHLBanks. Restricted access to term financing poses new challenges for the FHLBanks' management of interest rate risk. Federal government support for Fannie Mae, Freddie Mac and certain large depository institutions, may disadvantage the FHLBanks in their efforts to raise funds in the capital markets. However, FHLBanks entered credit facilities with the U.S. Treasury as provided by HERA and have the ability to ask for further support if needed

Staffing. In the competitive financial services environment, highly skilled personnel are in great demand, and recruiting and retaining a highly skilled workforce are continuing challenges. The FHFB's recruitment and retention efforts have focused on attracting and retaining examiners, economists, accountants, analysts, and attorneys with the requisite financial, legal, and technological skills to model, monitor, and assess the risks undertaken by the FHLBanks and OF. In FY08 the FHFB made changes to its compensation and benefits program to attract and retain highly skilled personnel. Towards that end, 13 mission critical positions were filled in FY08.

Continuity of Operation Program (COOP). Financial institutions must maintain the capability to resume business during and after a crisis. Ensuring preparedness for a crisis continues to be a priority for the FHFB both for its own operations and those of the FHLBanks and OF.

The FHFB maintains an Emergency Operations Center that provides essential personnel with the necessary resources to continue agency operations during a COOP event. During such a crisis, FHFB employees can securely access the agency's information technology systems remotely. In FY08 the FHFB participated in the Government-wide continuity of operations test Eagle Horizon. All systems were tested under various scenarios to ensure that in the event of a disruption to agency operations the FHFB could operate at its remote facility and continue its supervision and oversight of the FHLBanks.

Performance Assessment Rating Tool

The FHFB provided limited assistance to OMB, but did not participate in the PART process in 2006. The FHFB has been unable to develop quantifiable performance measures that OMB would consider meaningful without revealing confidential bank examination information.

MANAGEMENT CHALLENGES

In accordance with Office of Management and Budget (OMB) Circular A-136, The Office of Inspector General determined the most serious management and performance challenges facing FHFB and made an assessment of the agency's progress in addressing those challenges. The Office of Inspector General's position is based on the audit work performed to date and is summarized below. A copy of the referenced memo from the Inspector General can be found on page X.

Ensuring the Proper "Wind-Up" of FHFB Operations.

Under HERA, the Board of FHFB is responsible only for winding down its affairs by July 30, 2009. The appropriate steps should be taken to ensure that such affairs are completed in the most efficient, economical and effective manner and in the absence of fraud, waste and abuse.

Agency Progress: The FHFB has taken positive steps towards ensuring the proper wind-up of its affairs. Agency management has positively approached resolving related audit findings and commited to continuing corrective actions at the newly created FHFA. On October 27, 2008, FHFB employees were transferred to FHFA.

FY2008 Representative Accomplishments

Strategic Goal 1: The Federal Home Loan Banks operate safely and soundly.	
Strategic Outcomes	**2008 Accomplishments**
1. The FHLBanks effectively identify and manage risk	• The FHFB conducted onsite safety and soundness examinations at all 12 FHLBanks using the risk rating system implemented in FY2007. • Each FHLBank was assigned an overall rating, as well as component ratings for corporate governance, credit risk, market risk, operational risk, and financial condition and performance.
2. The FHLBanks remain adequately capitalized and able to raise funds in the capital markets	• Each FHLBank continuously met or exceeded its minimum capital requirements. • The FHFB approved three capital plan amendments submitted by three FHLBanks.

Strategic Goal 2: The affordable housing and community investment programs of the FHLBanks operate effectively and efficiently.	
Strategic Outcomes	**2008 Accomplishments**
1. The FHLBanks foster the development of owner-occupied and affordable rental housing for eligible very low-, low-, and moderate-income households Substantially Achieved	• The FHFB conducted examinations at 11 of the 12 FHLBanks. The AHP examination of the 12th FHLBank was deferred in order to focus examination resources on areas of heightened supervisory concern. • Expanded data collection to include set-aside and CICA programs in addition to competitive application program data. • Performed off-site monitoring of AHP activities. • As of June 30, 2008, the FHLBanks had awarded more than $115 million in subsidies to assist 13,590 housing units.

FINANCIAL SUMMARY

ALLOCATING RESOURCES TO MEET OUR GOALS

The FHFB prepared its FY2008 Annual Performance Budget to link the agency's strategic and performance goals to the costs of achievement. The FHFB identified and resolved safety and soundness issues, promulgated regulations to enhance the safety and soundness of the FHLBanks, monitored the FHLBanks' activities to serve the nation's housing finance and community investment needs, and aligned the agency's human capital and information technology initiatives to the FHFB's mission, goals and outcomes.

Most FHFB available were allocated-- in both full-time equivalents and budgeted dollars -- to support Strategic Goal 1, which reflected the primary duty of the FHFB.

Strategic Goal 1: The Federal Home Loan Banks Operate Safely and Soundly

	FY2007	% of	FY2008	% of	FY2009	% of
SUMMARY	Actual	Total Budget	Actual	Total Budget	Approved	Total Budget
Program FTE	87.8	81.0%	93.4	82.9%	105.7	82.1%
Infrastructure & Support FTE	20.6	19.0%	19.3	17.1%	23.0	17.9%
Total Budget	**108.4**	**100.0%**	**112.7**	**100.0%**	**128.7**	**100.0%**
Program Expenses ($M)	$21.7	81.0%	$24.5	82.8%	$26.9	82.3%
Infrastructure & Support Expenses ($M)	$ 5.1	19.0%	$ 5.1	17.2%	$ 5.8	17.7%
Total Budget	**$26.8**	**100.0%**	**$29.6**	**100.0%**	**$32.7**	**100.0%**

Strategic Goal 2: The Affordable Housing and Community Investment Programs of the Federal Home Loan Banks Operate Effectively and Efficiently						
	FY2007	**% of**	**FY2008**	**% of**	**FY2009**	**% of**
SUMMARY	Actual	Total Budget	Actual	Total Budget	Approve d	Total Budget
Program FTE	20.4	81.3%	21.3	82.6%	25.2	81.8%
Infrastructure & Support FTE	4.7	18.7%	4.5	17.4%	5.6	18.2%
Total Budget	**25.1**	**100.0%**	**25.8**	**100.0%**	**30.8**	**100.0%**
Program Expenses ($M)	$5.3	80.3%	$5.6	82.4%	$6.4	82.1%
Infrastructure & Support Expenses ($M)	$1.3	19.7%	$1.2	17.6%	$1.4	17.9%
Total Budget	**$6.6**	**100.0%**	**$6.8**	**100.0%**	**$7.8**	**100.0%**

Strategic Goals 1 and 2: FTEs and Expense Summary						
	FY2007	**% of**	**FY2008**	**% of**	**FY2009**	**% of**
SUMMARY	Actual	Total Budget	Actual	Total Budget	Approved	Total Budget
S&S FTE	108.4	81.2%	112.7	81.4%	128.7	80.7%
AHP FTE	25.1	18.8%	25.8	18.6%	30.8	19.3%
Total Budget	**133.5**	**100.0%**	**138.5**	**100.0%**	**159.5**	**100.0%**
S & S Expenses ($M)	$26.8	80.2%	$29.6	81.3%	$32.7	80.7%
AHP Expenses ($M)	$ 6.6	19.8%	$ 6.8	18.7%	$ 7.8	19.3%
Total Budget	**$33.4**	**100.0%**	**$36.4**	**100.0%**	**$40.5**	**100.0%**

FINANCIAL HIGHLIGHTS

As of September 30, 2008, the financial condition of the FHFB was sound. There were sufficient funds to meet program needs and adequate controls in place to ensure that obligations did not exceed budget authority.

The FHFB drew its financial resources from assessments levied upon the 12 FHLBanks. It receives no appropriations, and its funds were neither government funds nor appropriated monies and were not subject to apportionment.

The FHFB's budget for FY2008 was approximately $38.7 million with 150 full-time equivalent budgeted staff. The FY2008 budget represented a 7.8% increase from the FY2007 budget.

Actual expenditures in FY2008 were $36.4 million with 138.5 full-time equivalent staff on board at the end of the fiscal year. As in the past, in FY2008, approximately 80 percent of the agency's budget was allocated to supervision of the FHLBanks.

FINANCIAL STATEMENT MAJOR CHANGES

Figure X -- Financial Statement Key Comparison of FY2008 to FY2007

In US $ Millions	2008		2007	
Total Assets	$9.27		$7.93	
Total Liabilities	$5.35		$4.32	
Total Net Position	$3.91		$3.60	
Net Cost of Operations	$0.63		$4.46	
Total Budgetary Resources	$44.82		$36.44	

Major changes in the financial operations from FY2007 to FY2008 were caused by an increase in overall program expenditures and the transition activities associated with the creation of the FHFA. Program expenditures increased primarily due to the hiring of additional staff and an increased use of professional services for FHLBank supervisory matters. The transition activities were staff time allocated to the creation FHFA. These amounts resulted in an increase in the total budgetary resources and decrease in the net cost of operations from FY2007 to FY2008, as reflected in figure X. In addition, total assets increased due to an accounts receivable resulting from the transition activities.

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements have been prepared from the books and records of the FHFB in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

MANAGEMENT ASSURANCES

The FHFB provides reasonable assurance that its systems of internal accounting and administrative control fully comply with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123 (rev. December 21, 2004). The FHFB provides this statement of reasonable assurance that the agency's management accountability and internal controls were adequate and effective, and there were no material weaknesses to report. The objectives of the system of internal control of the FHFB were to provide reasonable assurance that:

- Programs achieve their intended results.
- Financial reporting was reliable.
- Resources were used consistent with the agency mission.
- Programs and resources were protected from waste, fraud, and mismanagement.
- Laws and regulations were followed.
- Reliable and timely information was obtained, maintained, reported, and used for decision making.

The concept of reasonable assurance recognizes that the cost of management control should not exceed the benefits expected to be gained and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of management accountability and control, including those limitations resulting from resource constraints and other factors. The statement of assurance and determination are based on the following:

- An independent outside audit of the FHFB's financial statements, which provided an unqualified opinion and found no weaknesses involving the FHFB's internal control structure determined to be material.

- An internal evaluation of the internal controls covering the period from October 1, 2007, through September 30, 2008, was completed by the agency's senior program management and reviewed by the Office of Inspector General. The evaluation found no material weaknesses and concluded that the FHFB's internal controls are achieving their intended objectives.

The FHFB was committed to a strong internal control program. The agency employed sound financial management techniques, had developed oversight procedures, and emphasized the importance of a strong risk management and internal control program to meet its statutory, regulatory and fiduciary responsibilities.

As part of the creation of FHFA, management will establish new systems, processes and procedures for FHFA. Improvements to processes and controls will be considered in the overall effort to establish FHFA.