Federal Housing Finance Agency
Office of Inspector General

$1.1 Billion Increase in Expenses for Fannie Mae and Freddie Mac from 2012 through 2015: Where the Money Went

White Paper • WPR-2016-001 • March 9, 2016

WPR-2016-001

March 9, 2016

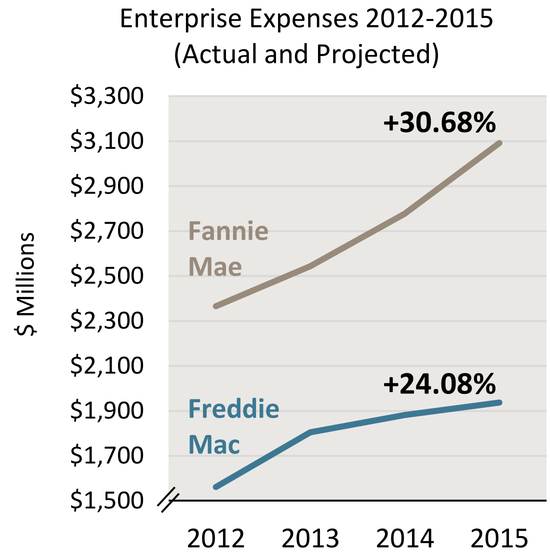
Executive Summary

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises) have been under the conservatorship of the Federal Housing Finance Agency (FHFA) since September 2008. For the Enterprises' first three fiscal years in conservatorship, 2009 through 2012, FHFA delegated to the Enterprises the authority to establish their annual operating budgets. Acting pursuant to this delegated authority, both Enterprises set their annual operating budgets for these years. In November 2012, FHFA, acting as conservator, rescinded that delegation and directed the Enterprises to obtain its review and approval of their annual operating budgets. FHFA's stated purpose for that action was to ensure that the budgets aligned with its strategic direction and safety and soundness priorities. To date, FHFA has reviewed and approved the Enterprises' budgets for fiscal years 2013 through 2015.

Our evaluation, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose,* September 30, 2015 (EVL-2015-006), assessed FHFA's process to review and approve each of the Enterprises' annual operating budgets, beginning with fiscal year 2013. Based on information provided by FHFA, we reported that the Enterprises' combined budgets for 2015 totaled \$5.1 billion, a \$1.2 billion increase from combined Enterprise expenses in 2012 of \$3.9 billion. We found that FHFA's budget review and approval process had not achieved FHFA's stated purpose for reasserting its approval authority because of late timing, cursory-level analysis, and inadequate resources. We identified shortcomings in this process that prevented FHFA from exercising effective control over Enterprise spending in both amount and direction and recommended four actions to address them. FHFA agreed with three of our recommendations and "generally" agreed with the fourth.

Given the significant size of these increases, we committed in that evaluation to trace, in a later project, the FHFA-approved net spending increases of more than \$1 billion from 2012 through 2015 by the Enterprises. In this white paper, we report on the results of our efforts to trace the increase in Fannie Mae's expenses, from \$2.366 billion in 2012 to a projected \$3.092 billion in 2015, a net increase of \$726 million, or 30.68%, and in Freddie Mac's

expenses, from $1.561 billion in 2012 to a projected $1.937 billion in 2015, a net increase of $376 million, or 24.08%, as shown below.[1]



While we identified shortcomings with FHFA's review and approval process in our earlier evaluation, we recognize that FHFA approved all of these increases and we do not seek to second-guess its decisions. As a consequence, we make no findings on the reasonableness of the net increases in expenses in this white paper.

While in conservatorship, the Enterprises have required $187.5 billion in financial investment from the U.S. taxpayers to avert their insolvency and, through December 2015, the Enterprises have paid approximately $241.2 billion in dividends on this investment. Despite their high leverage, lack of capital, conservatorship status, and uncertain future, the Enterprises have grown in size during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is approximately 70%. Given this enormous investment in the Enterprises by the U.S. taxpayers, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, we emphasize transparency in our oversight work to the fullest reasonable extent to foster accountability to stakeholders.

This white paper, which tracks FHFA-approved net spending increases of more than $1 billion from 2012 through 2015 by the Enterprises, sheds light on where these monies were spent to provide an accounting for stakeholders.

[1] During our field work for this white paper, the Enterprises provided actual 2015 expense data through August 2015 (for Fannie Mae) and September 2015 (for Freddie Mac) as well as their projected expenses for the remainder of 2015, and we used the actual and projected expense data for this white paper.

Two weeks ago, after this white paper was drafted, the Enterprises issued their annual reports for the fiscal year ended December 31, 2015. According to these annual reports, actual administrative expenses for 2015 were $52 million less than the amount projected by the Enterprises ($42 million less for Fannie Mae and $10 million less for Freddie Mac), which resulted in an increase in actual expenses for Fannie Mae from $2.366 billion in 2012 to $3.050 billion in 2015, a net increase of $684 million, or 28.90%, and an increase in actual expenses for Freddie Mac from $1.561 billion in 2012 to $1.927 billion in 2015, a net increase of $366 million, or 23.44%.

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This report was prepared by Tara Lewis, Audit Director, with assistance from Alisa Davis, Senior Auditor; Anya Philbert, Auditor-In-Charge; Terese Blanchard, Senior Auditor; and Pamela L. Williams, Auditor.

We appreciate the cooperation of FHFA and Enterprise staff, as well as the assistance of all those who contributed to the preparation of this report. This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website: www.fhfaoig.gov.

Stacey Nahrwold
Acting Deputy Inspector General for Audits

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ABBREVIATIONS

CSP	Common Securitization Platform
Enterprises	Fannie Mae and Freddie Mac
ERM	Enterprise Risk Management
Expenses	Administrative Expenses
Fannie Mae	Federal National Mortgage Association
FHFA	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
MHA	Making Home Affordable
OIG	Federal Housing Finance Agency Office of Inspector General
PLS	Private Label Securities
Treasury	U.S. Department of the Treasury

BACKGROUND

In September 2015, the Federal Housing Finance Agency Office of Inspector General (OIG) issued an evaluation, *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose,* September 30, 2015 (EVL-2015-006), which assessed FHFA's process to review and approve each of the Enterprises' annual operating budgets, beginning with fiscal year 2013. We found, at that point in time, that the Enterprises' combined budgets for 2015 totaled $5.1 billion, a $1.2 billion increase from combined Enterprise administrative expenses (expenses) in 2012 of $3.9 billion.[2] In that evaluation, we committed to trace where those increases were spent. This white paper reports on the results of that tracing effort.

For this white paper, the Enterprises provided us with actual 2015 expense data through August 2015 (for Fannie Mae) and September 2015 (for Freddie Mac) as well as their projected expenses through the end of 2015. Based on that actual and projected data, the Enterprises' combined annual net expenses increased from $3.9 billion in 2012 to $5 billion at year end 2015, representing a net increase of $1.1 billion during this period (the review period).[3]

Fannie Mae reported to us that its expenses increased from $2.366 billion in 2012 to a projected $3.092 billion in 2015, a net increase of $726 million, or 30.68%, during the review period. Freddie Mac reported to us that its expenses increased from $1.561 billion in 2012 to a projected $1.937 billion in 2015, a net increase of $376 million, or 24.08%, during the review period.

[2] While the Enterprises label this spending as "administrative expenses," we recognize that use of this term could cause confusion; therefore, for purposes of this report, we use the term "expenses" to refer to this spending.

[3] This $1.1 billion net increase in expenses reflects both increases and decreases in actual and projected expenses for the Enterprises during the review period. As explained in footnote 1, the actual expenses through December 31, 2015, as reported by the Enterprises in their recently released annual reports, reflect a net increase in administrative expense of $1.05 billion for 2012-2015.

WHERE THE MONEY WENT..

We now trace the $1.1 billion in net increases in expenses, by Enterprise, during the review period.

Fannie Mae

Fannie Mae's expenses increased from $2.366 billion in 2012 to a projected $3.092 billion in 2015, a net increase of over $726 million, or 30.68%, over four years. We discuss below the drivers of this net increase and summarize them in Figure 1.

Increases

Implementation of Specific FHFA Strategic Goals and Initiatives – $476 Million Increase. Each year, FHFA announces its strategic goals and initiatives relating to reform of the housing finance system. FHFA achieves its strategic goals, in part, by issuing significant policy determinations and initiatives in conservatorship directives, and by delegating to the Enterprises the responsibility to implement and comply with the initiatives and directives. Of the over $726 million net increase in Fannie Mae's expenses during the review period, $476 million (or 66%) was spent on implementation of three of FHFA's strategic goals and initiatives:

- *Common Securitization Platform (CSP) Integration – $145 Million Increase*. FHFA's 2012 Strategic Plan announced a new housing finance infrastructure was required in order to achieve FHFA's goal of improving the overall liquidity of the mortgage market. At that time, FHFA determined that there was no existing private sector infrastructure capable of securitizing the $100 billion per month in new mortgage originations and concluded that investment in this new infrastructure by the Enterprises would facilitate reform of the housing finance system. The CSP initiative involves the development of a common information technology platform that is designed to use industry-standard software, systems, and data requirements, and is adaptable for use by other market participants in the future. According to FHFA, this increase was driven by the number and significance of system and process changes required at Fannie Mae for CSP integration.

- *Reduction of Retained Portfolio – $16 Million Increase*. Pursuant to the terms of agreements with the U.S. Department of the Treasury (Treasury) and additional limits from FHFA, both Enterprises must reduce the size of its retained portfolio over the next few years. As Fannie Mae disclosed in its 10-K, its retained portfolio consists of mortgage loans that are performing and nonperforming and mortgage-related securities owned by Fannie Mae. According to Fannie Mae, the status of a significant volume of nonperforming loans in its retained portfolio had changed to re-performing loans and it determined that it could reduce the size of its retained portfolio by securitizing and then reselling such re-performing loans as mortgage backed securities. Fannie Mae reported that it modified more than 35 existing systems to develop the capability to certify and securitize re-performing loans in its retained portfolio, and obtain and disclose updated borrower and co-borrower credit scores, among other things. Development of this capability drove the $16 million net increase.

- *Pension Plan Termination – $315 Million Increase.* In 2013, FHFA instructed both Enterprises to terminate their defined benefit plans because it determined that termination would conserve Enterprise assets. In 2015, Fannie Mae recognized expenses related to the termination of its defined benefit plan and settlement of its pension plan obligations. Payouts to defined benefit pension plan participants were made either in the form of a lump sum or an annuity. To replace the defined benefit retirement plans, Fannie Mae will provide retirement benefits for their employees through defined contribution plans. Going forward, Fannie Mae employees will be able to elect a pension annuity or rollover their benefits into another retirement vehicle, such as an IRA or 401k. According to FHFA, key factors contributing to this expense increase include the amount of Fannie Mae's unfunded obligations under the company's nonqualified plan and Fannie Mae's decision, in 2005, to fund qualified plan obligations using the accumulated benefits method.

Implementation of Fannie Mae's Strategic Goals and Initiatives – $369 Million Increase. During the review period, Fannie Mae launched a number of initiatives it considered critical to prepare its business and infrastructure for potential future changes in the structure of the U.S. housing finance system and to help ensure its safety and soundness. Fannie Mae reported to us that its initiatives are necessary for it to meet industry benchmarks and/or remediate risks within its operating environment. These initiatives include:

- *Critical Safety and Soundness – $267 Million Increase*. Fannie Mae reported $101 million in projects such as: replacing its securities accounting and capital markets infrastructure to modernize its existing aging infrastructure, creating a single source for securities data, and connecting with a new capital markets trading system to meet evolving industry requirements, regulatory changes, and to enable better decision-making within the housing finance industry. Also, Fannie Mae advised us that it is reducing the physical footprint of its data centers, upgrading its infrastructure, moving to cloud based services, and seeking to simplify its operational model.

  In addition, Fannie Mae reported to us that it spent $110 million ($60 million in year 1 and $50 million in year 2) in expenses for an out-of-region data center to improve its internal controls, enhance its compliance function, increase capacity, and strengthen its information technology infrastructure; and spent $56 million on workplace consolidation, Enterprise data, and risk controls and security.

- *Other Modernization Efforts – $102 Million Increase*. Fannie Mae reported that it formalized plans to integrate several large multi-year infrastructure modernization projects, including its multifamily initiative to develop an independent platform for its multifamily business with a stand-alone infrastructure. Since 2013, Fannie Mae has been replacing or upgrading specific software programs to eliminate legacy technologies.

Consulting Services – $25 Million Increase. Fannie Mae incurred $25 million in additional consulting services expenses in 2015 due to a company-wide simplification and operational efficiency project, which was designed to increase operating performance and cut costs.

Miscellaneous – $35 Million Increase. During the review period, additional expenses of $35 million in miscellaneous items were incurred by Fannie Mae. These miscellaneous items are:

- *Enterprise Risk Management (ERM) – $14 Million Increase.* Fannie Mae's increased ERM expenses of $14 million were incurred, nearly equally, for two projects: a re-organization of the model research and analytics functions into ERM and increased hiring, and implementation of a capital markets risk initiative "Daily Green Package," which provides daily pricing on the securities in Fannie Mae's portfolio.

- *Human Resources – $9 Million Increase.* This increase was driven by Fannie Mae's efforts to identify possible sites to relocate its headquarters in Washington D.C. and due diligence for the sites identified ($2 million), rent increases for regional offices ($2 million), increased compensation to human resources employees ($3 million), increases in professional services associated with the diversity and inclusion program ($1 million), increases in employee services programs, and increases in general building maintenance ($1 million).

- *Multifamily – $4 Million Increase.* Increase was driven by consolidation of functions transferred from other areas of Fannie Mae into this business unit and associated increases in personnel expenses.

- *Legal – $4 Million Increase*. Increases in legal fees by Fannie Mae's external counsel primarily drove this increase in expenses.

- *Internal Audits – $2 Million Increase*. This increase was largely driven by higher costs for professional services required to perform testing of new information technology controls, as required by Sarbanes-Oxley.

- *Compliance and Ethics and Executive Office – $2 Million Increase.* The compliance and ethics increase was primarily driven by increased hiring to fill existing vacant positions in anti-fraud management and anti-money laundering. In addition, Fannie Mae's Executive Office increase was largely driven by the net of increases and decreases associated with a consulting project in support of the FHFA Scorecard and recruitment fees incurred during the General Counsel search.

Decreases

Credit and Making Home Affordable – $41 Million Decrease. Expenses in both the Credit and Making Home Affordable (MHA)[4] divisions decreased by $41 million during the review period. That decrease was attributed to the following factors: a decrease of $32 million in Credit division expenses was primarily due to position reductions along with a reduction of real estate owned inventory and of volume of seriously delinquent loans; also, a decrease of $9 million related to a lower headcount and higher reimbursement paid by Treasury for MHA related services.

Underwriting, Pricing, and Capital Markets – $62 Million Decrease. This net decrease was driven by the Loan Quality Center division. According to Fannie Mae officials, a decrease of $98 million in expenses was achieved by completion of most loan reviews for loans purchased by Fannie Mae prior to January 1, 2013. This total was offset by a $36 million increase related to Fannie Mae's efforts to conduct upfront quality control reviews on loans purchased on or after January 1, 2013, under the new representation and warranty framework as well as its efforts to improve business efficiencies.

Miscellaneous – $76 Million Decrease. During the review period, Fannie Mae's expenses in a number of different areas decreased:

- *Extraordinary Litigation – $18 Million Net Decrease.* During the review period, Fannie Mae's expenses for extraordinary litigation declined, after a peak in 2013. These expenses relate to litigation against various financial institutions, responsible for marketing and selling private label securities (PLS) to Fannie Mae and Freddie Mac under alleged fraud and/or misrepresentation with respect to the characteristics of the loans underlying the securities sold to the company. Fannie Mae bears half of the

[4] The MHA program is designed to help at-risk homeowners obtain mortgage relief and avoid foreclosure.

costs of PLS securities fraud litigation brought and managed by FHFA, which amounted to $16 million of the net decrease in this category.

- *Customer Engagement, Communications, and Marketing Services – $17 Million Decrease*. Decreases were driven by reorganization of staff from Customer Engagement to Underwriting, Pricing, and Capital Markets, in order to centralize and align various core functions and capabilities for the overall Single Family Business. In addition, the Corporate Contributions Program, a program focused on the housing crisis and efforts to stabilize the housing market, including foreclosure prevention, neighborhood stabilization, and preservation of affordable housing, was terminated, adding to the decrease in expenses.

- *Maintenance – $16 Million Decrease.* Fannie Mae's decline in maintenance expenses was primarily driven by reduced demand in multiple areas – including PeopleSoft, Servicer and Investor Reporting, Enhanced Regression, Single Family Real Estate Owned Migration, and by temporary reductions prior to large initiative implementations, which was offset by normal annual variations (+/– 5%) associated with a portfolio of small project activities necessary to sufficiently maintain the existing technology assets.

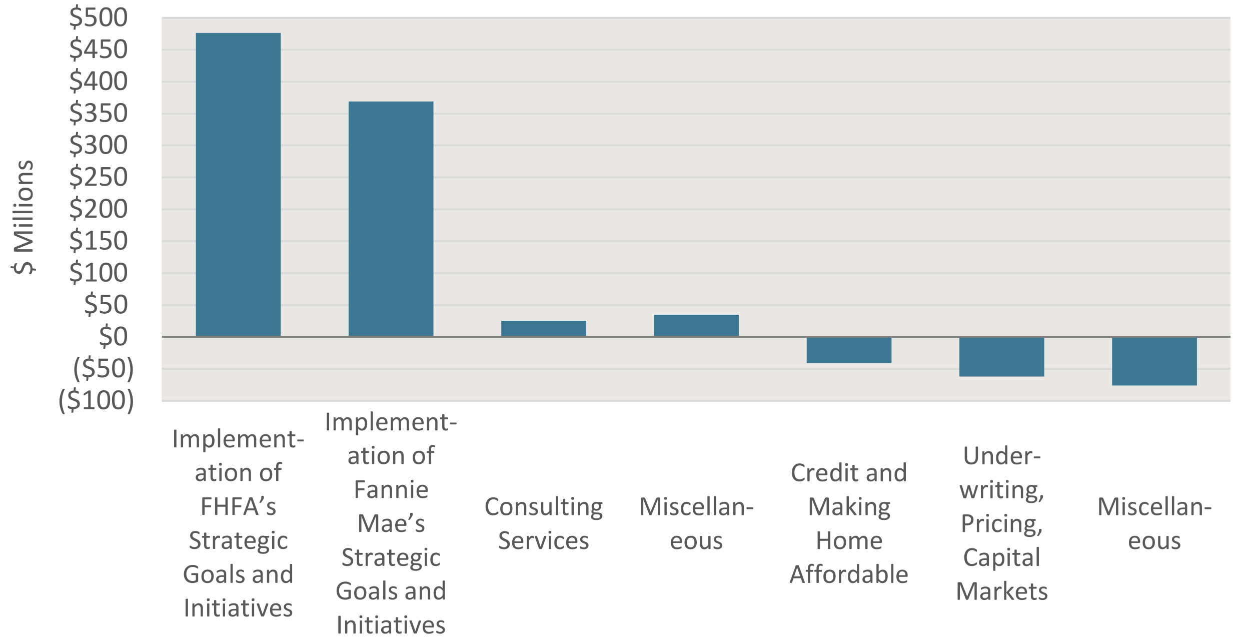
- *Corporate Expense – $13 Million Net Decrease*. This net decrease was driven by a large decrease in corporate expenses in 2013 due to an adjustment relating to the freeze of employee defined pension plan benefits,[5] and decreases in software development amortization and severance. This decrease was offset by increases in 2014 and 2015 driven by incentive compensation and the return on assets rate assumption in 2014 being higher than the rate assumption incorporated during the third quarter budget cycle. The change in assumption resulted from clarification of accounting guidance on actuarial assumptions for terminated pension plans.

- *Finance Division – $7 Million Decrease*. This decrease was driven by decreased positions, reallocation of workplace services, and lower software and professional fees.

- *ERM PLS Forensics – $5 Million Decrease.* Decrease in expenses was driven by a decline in the need for professional services fees for loan reviews, re-underwriting work, business consulting, data services, and document storage to support legal efforts, as well as by Fannie Mae's efforts to resolve outstanding litigation.

[5] FHFA directed the Enterprises to terminate their defined benefit retirement plans effective December 31, 2013. Fannie Mae had determined to freeze employee benefits in its plan earlier in 2013 and amended its plan accordingly.

FIGURE 1. FANNIE MAE
SUMMARY OF DRIVERS IN NET INCREASES OF EXPENSES DURING REVIEW PERIOD



Freddie Mac

Freddie Mac's expenses increased from $1.561 billion in 2012 to a projected $1.937 billion in 2015, a net increase of $376 million, or 24.08%, during the review period. We discuss the drivers of this net increase and summarize them below in Figure 2.

Increases

Implementation of Specific FHFA Strategic Goals and Initiatives – $128 Million Increase. Like Fannie Mae, a significant percentage of the net increases in Freddie Mac's expenses is attributed to implementation of three of FHFA's strategic goals and initiatives. Of the $376 million net increase in Freddie Mac's expenses during the review period, $128 million, or 34%, was spent on implementation of these FHFA strategic goals and initiatives:

- *CSP – $61 Million Increase*. As discussed earlier, the Enterprises are developing and implementing the CSP, at FHFA's direction and under its oversight. Freddie Mac's implementation expenses for this effort increased by $60 million and its expenses for information testing support for CSP increased by $1 million.

- *Reduction of Retained Portfolio* – Freddie Mac reported to us that it incurred increased expenses in connection with reducing the size of its retained portfolio relating to managing liquid and less liquid assets and managing interest-rate risk, maintaining models and performing analytics, and managing operational risk and controls. Because Freddie Mac captured these increased expenses in different expense accounts, it advised us that it could not readily determine the amount of the increase. For that reason, we report that Freddie Mac's increased expenses associated with reduction of the size of its retained portfolio are reflected in the overall $376 million increase during the review period.

- *Pension Plan Termination – $67 Million Increase.* As discussed earlier, FHFA directed the Enterprises to terminate their defined benefit retirement plan in 2013. Freddie Mac employees were offered the election of a pension annuity or a roll-over of benefits into another retirement vehicle, such as an IRA or 401k. In 2013, 2014, and 2015, Freddie Mac incurred expenses related to its pension plan termination as a result of a true-up of the company's liability based on changes in the discount rate and payout options selected by plan participants against assumptions in actuarial valuation made in 2013. Freddie Mac funded its pension plan under the projected benefits method.

Implementation of Freddie Mac's Strategic Goals and Initiatives – $105 Million Increase. During the review period, Freddie Mac launched a number of initiatives it considered critical for its business. These initiatives include:

- *Loan Advisor Suite – $58 Million Increase.* Freddie Mac reported that this initiative, which included efforts begun in 2013, was designed to give lenders a way to originate and deliver high quality mortgages and acquire insight into representation and warranty relief earlier in the loan production process. The Loan Advisor Suite is comprised of about 15 components geared toward driving greater usage of Freddie Mac's credit scoring tools intended to help manage risk. Major components include efforts on upfront quality control reviews for the new representation and warranty framework ($10 million), assessment of collateral ($14 million), and assistance with identifying purchase eligibility issues before loan delivery ($23 million). According to Freddie Mac, the remaining components of Loan Advisor Suite include other projects relating to loan manufacturing quality ($11 million).

- *Enhanced and New Operations and Technology Capabilities – $35 Million Increase.* According to Freddie Mac, increased expenses for enhancements and new operations and technologies include $29 million for an out-of-region data center, which Freddie Mac reports will improve its ability to recover business systems in the event of a catastrophic regional business event and $6 million for investments in technologies designed to protect personal information.

- *Pricing Execution – $12 Million Increase*. Freddie Mac advised that this initiative, which began in 2013, was undertaken to deliver flexible, attribute based pricing capabilities and provide more accurate pricing of loans for risk.

Core Business – $233 Million Increase. Over half of the $376 million in net increases was driven by increased expenses for Freddie Mac's core business functions:

- *Increased Number of Employees – $96 Million Increase*. Freddie Mac increased staffing by 795 positions, from 2,480 to 3,275, because of higher business volumes, new loan products, and additional demands for IT support staff.

- *Increases in Salaries and Benefits – $42 Million Increase*. Freddie Mac increased salaries and benefits for its staffing related to its three lines of business and information technology. These expenses related to employee health benefits, retiree benefits, payroll taxes, and long-term incentives.

- *Professional Services – $40 Million Increase*. These expenses were the result of higher volumes in lines of business, cyber security, and support for the new voice data contract.

- *Computer Data Services – $15 Million Increase*. According to Freddie Mac, this increase was attributable to a new voice data contract and increased use of a software licensing and delivery model in which software was licensed on a subscription basis and was centrally hosted. In addition, Freddie Mac increased the number of external hosting engagements in an effort to provide cost savings, enhanced controls, and/or specialized services.

- *Loan Prospector – $10 Million Increase*. In 2015, Freddie Mac self-initiated a change in Loan Prospector, its automated underwriting system that provides lenders with an assessment of a loan's eligibility for purchase by Freddie Mac. Specifically, Freddie Mac assumed responsibility for fees associated with Loan Prospector (such as purchase of a credit score).

- *Software Lease and Maintenance – $8 Million Increase*. This increase is driven by a 2014 change in accounting policy that resulted in acceleration of recognition of expenses, vendor rate increases, and increased licenses required for higher staffing levels.

- *Travel – $5 Million Increase.* Increased travel expenses were driven by increasing contacts by Freddie Mac with its customers.

- *Various Other Expenses – $17 Million Increase*. Various other expenses were incurred related to Freddie Mac's three lines of business.

PLS and Other Litigations – $8 Million Increase. Freddie Mac bears half of the costs of PLS securities fraud litigation brought and managed by FHFA, which accounted for $7 million of the increase in this category. The remaining $1 million in expenses were attributed to efforts to resolve outstanding litigation and for expenses incurred by outside counsel firms representing Freddie Mac in litigation, such as the settlement of the SEC investigation and Ohio Public Employee Retirement System matters. Those expenses include attorneys' fees, expert witness fees, deposition costs, and discovery costs.

Decreases

Single-family Extraordinary Credit and Operations Expenses – $54 Million Decrease. According to Freddie Mac officials, its single-family extraordinary credit and operations expenses have decreased as a result of the improving housing market. The main drivers of this decreased spending were:

- Quality control expenses relating to underwriting peaked in 2013 and then reduced significantly in 2014 and 2015 as Freddie Mac completed most loan reviews for loans purchased by it prior to January 1, 2013.

- Expenses related to Freddie Mac's efforts to enforce contractual representation and warranty provisions for defaulted loans as the volume of defaulted loans subject to the old representation and warranty framework declined.

- Expenses related to loan modifications and servicer support declined as the performance of Freddie Mac's single-family book improved.

Support Staffing – $41 Million Decrease. Freddie Mac decreased support staffing by 316 positions, from 1,828 to 1,512.

Miscellaneous – $3 Million Decrease. This category includes dozens of projects which change each year, based on the needs of Freddie Mac's business.

FIGURE 2. FREDDIE MAC
SUMMARY OF DRIVERS IN NET INCREASES OF EXPENSES DURING REVIEW PERIOD

CONCLUSION

The Enterprises, which were put into conservatorship in September 2008, have required $187.5 billion in financial investment from the U.S. taxpayers to avert insolvency. Through December 2015, the Enterprises have paid approximately $241.2 billion in dividends on this investment. Despite their high leverage, lack of capital, conservatorship status, and uncertain future, the Enterprises have grown in size during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is approximately 70%.

Given this enormous investment in the Enterprises by the U.S. taxpayers, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, we emphasize transparency in our oversight work to the fullest reasonable extent to foster accountability to stakeholders.

This white paper, which tracks FHFA-approved net spending increases of more than $1 billion from 2012 through 2015 by the Enterprises, sheds light on where these monies were spent to provide an accounting for stakeholders.

OBJECTIVE, SCOPE, AND METHODOLOGY ....

The objective of this white paper was to track the net increases in the Enterprises' expenses from 2012 through 2015, and provide the reasons offered by the Enterprises for those increases.

The scope of our work included changes in the Enterprises' expenses from 2012 projected through December 31, 2015.

To address the objective, we performed the following:

- Reviewed the Enterprises' Audited Annual Reports (Form 10-K) for Fiscal Years 2012, 2013, and 2014 for information about expenses;
- Reviewed the Enterprises' Proposed 2015 Operating Budgets submitted to FHFA for review and approval;
- Held meetings and discussions with FHFA and Enterprise officials about expenses and the reasons for the changes; and,
- Reviewed documents provided to us by the Enterprises regarding their expenses.

The performance period for this white paper was August 2015 through January 2016.

We appreciate the efforts of FHFA, the Enterprises, and their staff in providing information and documents necessary to accomplish this assignment.

ADDITIONAL INFORMATION AND COPIES..............................

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