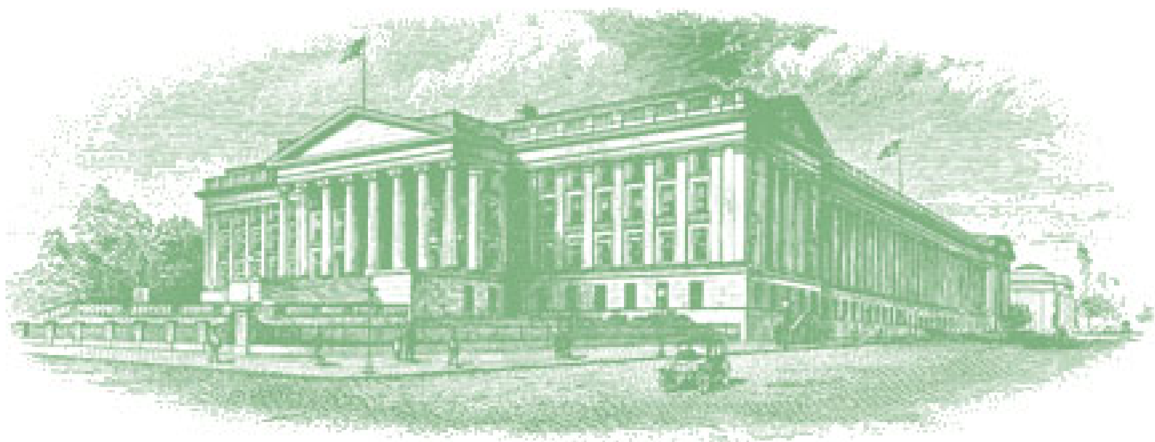
Audit Report



OIG-23-005

FINANCIAL MANAGEMENT

Audit of the Federal Financing Bank's Financial Statements for Fiscal Years 2022 and 2021

November 14, 2022

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

November 14, 2022

MEMORANDUM FOR SECRETARY YELLEN

FROM: Richard K. Delmar /s/
Deputy Inspector General

SUBJECT: Audit of the Federal Financing Bank's Financial Statements for Fiscal Years 2022 and 2021

We hereby transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Federal Financing Bank (FFB) as of September 30, 2022 and 2021, and for the years then ended, provided a report on internal control over financial reporting, and on compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin 22-01, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

In its audit of FFB, KPMG found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FFB's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated November 10, 2022, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 528-8997, or a member of your staff may contact Deborah Harker, Assistant Inspector General for Audit, at (202) 486-1420.

Attachment

cc: David Lebryk
Fiscal Assistant Secretary

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FEDERAL FINANCING BANK

Financial Statements

September 30, 2022 and 2021

(With Independent Auditors' Reports Thereon)

FEDERAL FINANCING BANK

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FEDERAL FINANCING BANK

Management's Discussion and Analysis (unaudited)

September 30, 2022 and 2021

(Dollars in thousands)

Introduction

The Federal Financing Bank (the Bank) is a government corporation under the general supervision and direction of the Secretary of the Treasury. The Congress created the Bank in 1973, at the request of the U.S. Department of the Treasury (Treasury). The Bank borrows from Treasury and lends to Federal agencies and to private entities that have Federal guarantees. The Bank also has debt obligations to the Civil Service Retirement and Disability Fund (CSR&DF).

Mission

The mission of the Bank is to reduce the costs of Federal and federally assisted borrowings, to coordinate such borrowings with the Government's overall fiscal policy, and to ensure that such borrowings are done in ways that least disrupt private markets. To accomplish this mission, the Bank exercises its statutory authority to purchase obligations issued, sold, or guaranteed by Federal agencies.

Objectives

The Bank was formed to be the vehicle through which Federal agencies finance programs involving the sale or placement of credit market instruments, including agency securities, guaranteed obligations, participation agreements, and the sale of assets. This objective is achieved in a manner consistent with the Federal Financing Bank Act of 1973 (12 U.S.C. 2281 et seq.) and its legislative history. However, guaranteed programs entailing large numbers of relatively small loans in which local origination and servicing are an integral part of the program are excluded from the Bank's activities.

The Bank makes funds available to Federal agencies and to federally guaranteed borrowers in accordance with agency program requirements. The Bank is capable of providing lending terms for a wide variety of loan structures. The methods used to determine interest rates charged by the Bank for terms such as prepayment provisions and service charges are applied consistently for all borrowers.

The lending policy of the Bank is flexible enough to preclude the need for agencies to accumulate pools of funds. This policy does not preclude the maintenance of liquidity reserves for those agencies that have such a need. In no case are funds provided by the Bank invested in private credit instruments outside of Federal agency programs or used to speculate in the market for public securities.

Organizational Structure

The Bank is subject to the general supervision and direction of the Secretary of the Treasury. The Board of Directors is comprised of the incumbents of the following Treasury offices: the Secretary of the Treasury, who as provided by law is the Chairman; the Deputy Secretary; the Under Secretary for Domestic Finance; the General Counsel; and the Fiscal Assistant Secretary.

The officers are incumbents of the following Treasury offices (corresponding Bank positions are in parentheses): the Under Secretary for Domestic Finance (President); the General Counsel (General Counsel); the Assistant Secretary for Financial Markets (Vice President); the Fiscal Assistant Secretary (Vice President); the Deputy Assistant Secretary for Public Finance (Vice President and Treasurer); the Director of Federal Program Finance (Vice President); and the Director, Office of Federal Lending (Secretary and Chief Financial Officer). A delegation by the Bank President authorizes any Bank Vice President, in consultation with any other Bank officer, to exercise the powers of the Presidency.

The staff of the Bank is organized into four units: accounting, information technology, lending, and operations. Each functional unit is headed by a Director who reports to the Chief Financial Officer. The Director of Accounting is responsible for loan transactions, including but not limited to overseeing loan disbursements and repayments as well as managing accounting and financial reporting. The Director of Information Technology is responsible for management and oversight of the IT infrastructure, including but not limited to software development and maintenance of mission critical applications that support lending and accounting functions. The Director of Lending is responsible for loan administration functions, including but not limited to loan origination, loan structuring, and managing customer relationships. The Director of Operations is responsible for general management functions, including but not limited to budgeting, procurement, human resources, strategic planning, and facilities.

Loan Programs Activity

The Bank makes funds available to Federal agencies and to federally guaranteed borrowers in accordance with agency program requirements. However, the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as Gramm-Rudman-Hollings Act, the Consolidated Omnibus Budget Reconciliation Act of 1985, and the Federal Credit Reform Act of 1990 included provisions that have prohibited or limited the Bank's financing of certain loans.

Impact of Economic Conditions

All Bank assets are, or have a commitment to be, full faith and credit obligations of the U.S. government and economic conditions do not affect repayments to the Bank.

Loans backed by the full faith and credit of the U.S. government are the credit equivalent of Treasury securities. The Bank does not expect to suffer any credit losses from loans backed by the full faith and credit of the U.S. government.

United States Postal Service

The United States Postal Service (USPS) is an independent establishment of the executive branch of the U.S. government, which borrows from the Bank to finance its capital improvements and operating expenses. The USPS has historically maintained a Note Purchase Agreement with the Bank supporting borrowing authority of $15 billion. This agreement expired on August 31, 2019, and all notes remaining under this agreement have expired or have been fully advanced. The USPS had an outstanding loan balance of $10 billion as of September 30, 2022. The Bank and the USPS may enter into a new Note Purchase Agreement in 2023.

Credit Performance

The Bank has not incurred any credit-related losses on its loans as of the date of these statements, and as stated above, all Bank loans are, or have a commitment to be, full faith and credit obligations of the U.S. government.

Financial Highlights

Statements of Income and Changes in Net Position Highlights

The following is a synopsis of the financial performance of the Bank for the fiscal year ended September 30, 2022. Interest on loans decreased $40,760 to $2,088,367 for the fiscal year ended September 30, 2022 compared to interest on loans of $2,129,127 for the fiscal year ended September 30, 2021.

(Dollars in thousands)

Rural Utilities Service (RUS), Department of Agriculture made its final payment for certificates of beneficial ownership (i.e., loans reported as loans receivable on the statements of financial position) of $135 million on September 30, 2021 which reduced the outstanding loan receivable balance on the certificates of ownership to zero. Accordingly, related legislatively mandated interest credits fell to zero for the fiscal year ended September 30, 2022 from $10,734 in fiscal year ended September 30, 2021. Revenue from servicing loans of $597 for the fiscal year ended September 30, 2022 decreased from $859 for the fiscal year ended September 30, 2021.

Interest on borrowings decreased $35,134 to $2,014,361 for the fiscal year ended September 30, 2022 compared to interest on borrowings of $2,049,495 for the fiscal year ended September 30, 2021. After administrative expenses of $9,731, net income of $64,872 for the fiscal year ended September 30, 2022 increased from net income of $59,348 for the fiscal year ended September 30, 2021.

Statements of Financial Position Highlights

Funds with U.S. Treasury of $3,766,070 at September 30, 2022, increased from the September 30, 2021 balance of $3,653,781.

The loan portfolio (loans receivable) increased $1,792,233 from $79,959,441 at September 30, 2021 to $81,751,674 at September 30, 2022. The table below list the net increases and decreases contributing to the change in the loan portfolio.

Programs	Net change
Rural Utilities Service, Department of Agriculture	$ 3,072,002
United States Postal Service	(1,000,000)
Historically Black College and Universities, Department of Education (HBCU)	109,760
Department of Housing & Urban Development (HUD)	85,656
Department of Energy (DOE)	(454,108)
Community Development Financial Institution Fund (CDFI Fund), Department of Treasury	(58,590)
Maritime Administration, Department of Transportation (MARAD)	37,606
Veterans Administration Transitional Housing Program	(93)

RUS continues to be the Bank's largest borrower with its outstanding balance increasing $3.1 billion to $51.8 billion in 2022.

The HBCU loan portfolio grew by $109.8 million to $270.1 million in 2022. This is the second consecutive year of growth in the HBCU portfolio after the Consolidated Appropriations Act (Act), 2021 (Pub. L. 116-260) forgave all outstanding HBCU loans which reduced the balance to zero as of December 27, 2020.

The extension of the Federal Financing Bank HUD-542 Risk Share Program at the end of FY21 resulted in the net increase of $85.7 million to an outstanding loan balance of $2.7 billion for HUD and also in the increase of the number of participating Housing Finance Agencies (HFA) in 2022. Currently, seven additional HFAs are finalizing their documents to be able to participate in the Federal Financing Bank HUD-542 Risk Share Program.

The Bank expects to see an increase in new loan commitments and disbursements for DOE and MARAD in fiscal year 2023 as a result of the passage of the Inflation Reduction Act of 2022 (Pub. L. 17-169) on August 16, 2022.

All of the loans in the Bank’s portfolio are federally guaranteed or have a commitment to be full faith and credit obligations of the United States. The Bank’s borrowings increased by $1,849,240 reflecting a related increase in loans receivable.

Net income of $64,872 increased the Bank’s net position to $6,537,103 at September 30, 2022 from $6,472,231 at September 30, 2021.

Performance Highlights

During fiscal year 2022, the Bank processed 109 new loan commitments. The interest rate was set or reset on 2,483 loans in fiscal year 2022 for new loans and maturity extensions. The Bank processed 214 prepayments and 44,589 loan payments in fiscal year 2022.

Management Controls

The Bank completed an in-depth testing of its internal accounting and administrative control procedures in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, as of September 30, 2022. Accordingly, we believe that the Bank's systems of internal accounting and administrative controls fully comply with the requirements for agency internal accounting and administrative control systems, providing reasonable assurance that they are achieving the intended objectives.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Deputy Inspector General, U.S. Department of the Treasury and
The Board of Directors, Federal Financing Bank:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Federal Financing Bank, which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of income and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Federal Financing Bank as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Federal Financing Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Federal Financing Bank's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 22-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are

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the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 22-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Federal Financing Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Federal Financing Bank's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the Management's Discussion and Analysis and Other Information - Schedule 1 but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2022, we considered the Federal Financing Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Federal Financing Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Federal Financing Bank's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Federal Financing Bank's financial statements as of and for the year ended September 30, 2022 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01.

Purpose of the Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Federal Financing Bank's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 10, 2022

FEDERAL FINANCING BANK

Statements of Financial Position

September 30, 2022 and September 30, 2021

(Dollars in thousands)

		2022	2021
Assets:			
Funds with U.S. Treasury	$	3,766,070	3,653,781
Loans receivable (note 2)		81,751,674	79,959,441
Accrued interest receivable		156,123	150,898
Total assets	$	85,673,867	83,764,120
Liabilities and Net Position:			
Liabilities:			
Borrowings (note 3)	$	79,068,013	77,218,773
Accrued interest payable		68,159	72,608
Other Liabilities		592	508
Total liabilities		79,136,764	77,291,889
Loan and interest credit commitments (notes 5 and 1(l))			
Net position:		6,537,103	6,472,231
Total liabilities and net position	$	85,673,867	83,764,120

See accompanying notes to financial statements.

FEDERAL FINANCING BANK

Statements of Income and Changes in Net Position

September 30, 2022 and September 30, 2021

(Dollars in thousands)

		2022	2021
Revenue:			
Interest on loans	$	2,088,367	2,129,127
Less legislatively mandated interest credit		-	(10,734)
Net interest on loans		2,088,367	2,118,393
Revenue from servicing loans		597	859
Total revenue		2,088,964	2,119,252
Expenses:			
Interest on borrowings		2,014,361	2,049,495
Administrative expenses		9,731	10,409
Total expenses		2,024,092	2,059,904
Net income	$	64,872	59,348
Net position:			
Beginning of year	$	6,472,231	6,412,883
Net income		64,872	59,348
End of year	$	6,537,103	6,472,231

See accompanying notes to financial statements.

FEDERAL FINANCING BANK

Statements of Cash Flows

September 30, 2022 and September 30, 2021

(Dollars in thousands)

		2022	2021
Cash flows from operations:			
Net income	$	64,872	59,348
Adjustments to reconcile net income to net cash provided by operations:			
Capitalization of interest receivable		(740)	(620)
Capitalization of interest payable		187,254	190,102
(Increase) decrease in accrued interest receivable		(5,225)	16,520
Decrease in accrued interest payable		(4,449)	(16,104)
Increase in other liabilities		84	47
Net cash provided by operations		241,796	249,293
Cash flows from investing activities:			
Loan disbursements		(6,595,456)	(6,268,666)
Loan collections		4,803,963	8,120,848
Net cash (used in) provided by investing activities		(1,791,493)	1,852,182
Cash flows from financing activities:			
Borrowings		6,595,456	6,268,666
Repayments of borrowings		(4,933,470)	(8,476,610)
Net cash provided by (used in) by financing activities		1,661,986	(2,207,944)
Net increase (decrease) in cash		112,289	(106,469)
Funds with U.S. Treasury – beginning of the period		3,653,781	3,760,250
Funds with U.S. Treasury – end of the period	$	3,766,070	3,653,781
Supplemental disclosures of cash flow information:			
Interest paid (net of amount capitalized)	$	1,831,555	1,875,497

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The Federal Financing Bank (the Bank) was created by the Federal Financing Bank Act of 1973 (12 USC 2281) as an instrumentality of the U.S. government and a body corporate under the general supervision of the Secretary of the Treasury (the Secretary). The budget and audit provisions of the Government Corporation Control Act apply to the Bank in the same manner as they apply to other wholly owned government corporations.

The Bank was established by Congress at the request of the U.S. Department of the Treasury (Treasury), in order "to assure coordination of Federal and federally assisted borrowing programs with the overall economic and fiscal policies of the U.S. government, to reduce the cost of Federal and federally assisted borrowing from the public, and to assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions. " The Bank was given statutory authority to finance obligations issued, sold, or guaranteed by Federal agencies so that the Bank could meet these debt management objectives.

The Bank is authorized, with the approval of the Secretary, to issue publicly and have outstanding at any one-time obligations not in excess of $15,000,000. Additionally, the Bank is authorized to issue obligations in unlimited amounts to the Secretary who, at the discretion of the Secretary, may agree to purchase any such obligations.

(a) Basis of Presentation

The Bank has historically prepared its financial statements in accordance with U.S. generally accepted accounting principles (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) has indicated that financial statements prepared based upon standards promulgated by the FASB may also be regarded as in accordance with GAAP for those Federal entities, such as the Bank, that have issued financial statements based upon FASB standards in the past. Accordingly, consistent with historical reporting, the Bank's financial statements are presented in accordance with accounting and financial reporting standards promulgated by the FASB.

(b) Basis of Accounting

The financial statements are presented on the accrual basis of accounting. The Bank recognizes loans when they are issued and related repayments when they are received. The Bank recognizes borrowings when they are received and repayments when they are made. In addition, the Bank recognizes interest on loans, interest on investments, and revenue from servicing loans when they are earned and recognizes interest on borrowings and expenses when they are incurred. Legislatively mandated interest credit is recorded in the period the cost is incurred as a contra-revenue to interest on loans in the Statements of Income and Changes in Net Position.

(c) Funds with U.S. Treasury

As a government corporation, the Bank maintains a Fund Balance with Treasury and does not hold cash. For the purposes of the statements of cash flows, the funds with Treasury are considered cash.

(d) Loans Receivable

The Bank issues loans to Federal agencies for their own use or to private sector borrowers whose loans are guaranteed by a Federal agency. When a Federal agency has to honor a guarantee because a private sector borrower defaults, the Federal agency must obtain an appropriation or use other resources to pay the Bank. All Bank assets are, or have a commitment to be, full faith and credit obligations of the U.S. government. Accordingly, the Bank has not recorded a reserve for default on any loans receivable.

The Bank has not incurred any credit-related losses on its loans as of the date of these statements.

(e) Interest on Loans

The Bank's general policy is to capture the liquidity premium between Treasury securities and private sector lending rates, and to charge a rate that reflects the risk inherent in a borrower or transaction, when such a rate will accomplish a broader goal. Under amendments to the Federal Credit Reform Act (FCRA), effective October 1, 1998, while the Bank is permitted to charge a spread on loans to government-guaranteed borrowers, the spread is not retained by the Bank, but rather is retained by the loan guarantor. In the event that this requirement results in the Bank being unable to fund its administrative expenses related to these loans, FCRA, as amended, states that the Bank may require reimbursement from loan guarantors.

(f) Capitalized Interest

In accordance with their loan agreements with the Bank, the Historically Black Colleges and Universities- Department of Education (HBCU), and the Department of Energy (DOE) have the option of deferring payments of interest on their loans until future periods. When HBCU or DOE elect, in advance, to defer interest payments, the accrued interest is recorded as capitalized interest receivable and added to the respective loan balance by the Bank. The Bank correspondingly capitalizes the interest payable on its related non-FCRA borrowings.

(g) Interest on Borrowings from Treasury

Interest rates, interest payable, and interest expense on borrowings from Treasury used to fund guaranteed loans that require the guaranteeing Federal agencies to comply with FCRA (2 USC 661(d)(3)) are determined annually by the borrowing agencies using FCRA and Office of Management and Budget guidelines. Interest on borrowings from Treasury for non-FCRA loans is based on the daily Treasury New Issue Curve (TNIC).

(h) Legislatively Mandated Interest Credit

In prior years, the Bank purchased certificates of beneficial ownership (i.e., reported as loans receivable on the statement of financial position) from the U.S. Department of Agriculture's Rural Utilities Service (RUS). RUS used the funds received from the Bank to issue loans to nonfederal entities, specifically private utility companies. In 1987, Congress passed legislation (7 USC Sec. 940c – Cushion of Credit Payments Program) that required RUS to develop and promote a program to encourage private utility companies to voluntarily make deposits into cushion of credit accounts established within RUS. The legislation also indicated that private utility companies may reduce the balance of their cushion of credit account only if the reduction is used to make scheduled payments on loans received from RUS. The legislation also indicated that RUS shall receive an interest credit from the Bank. The Bank records the interest credit in the period the cost is incurred as a legislatively mandated interest credit (contra-revenue to interest on loans) in the Statements of

Income and Changes in Net Position. The final certificate of beneficial ownership in the amount of $135,000 was repaid on September 30, 2021.

(i) Revenue from Servicing Loans

The Bank charges certain RUS borrowers a loan service fee that is reported as revenue from servicing loans on the Statements of Income and Changes in Net Position. The Bank's loan servicing fee is equal to one-eighth of one percent more than the contractual interest rate with Treasury.

During 2021, the Bank also received fees related to servicing certain loans on behalf of the Federal Emergency Management Agency (FEMA). The loans, which were reduced to zero at September 30, 2021, were FEMA loans and accordingly, the loan balances and any related transactions remain part of FEMA's reporting and were not included in the Bank's financial statements. No fees related to the servicing of FEMA loans were collected in 2022.

(j) Administrative Expenses

The Bank is subject to the general supervision and direction of the Secretary. As provided by law, the Secretary acts as Chairman of the Board of Directors. Employees of Treasury's Departmental Offices perform the Bank's management and operational functions, and its legal counsel is the General Counsel of the Treasury. The Bank reimburses Treasury for the facilities and services it provides. The amounts of such reimbursements are reported as administrative expenses in the Statements of Income and Changes in Net Position.

(k) Net Position

Net position is the residual difference between assets and liabilities and is composed of cumulative results of operations and prior capital transactions. The last capital transaction occurred when the Bank executed a debt exchange with the Civil Service Retirement and Disability Fund (CSR&DF) in October 2015. The Bank can borrow from Treasury to meet its immediate cash needs and can also seek appropriations from Congress to make up for accumulated losses that will not be met by income.

(l) Loan Commitments

The Bank is authorized to make commitments to purchase, and to purchase on terms and conditions determined by the Bank any obligation which is issued, sold, or guaranteed by a Federal agency. The Bank has offered Federal agencies the opportunity to enter into mutually beneficial agreements, which provide for the standardization of processes, documents, and conditions upon which the Bank will purchase obligations. A Note Purchase Agreement (NPA) generally sets forth processes, documents, and conditions precedent for the purchase of obligations issued by a Federal agency. A Program Financing Agreement (PFA) sets forth the processes, documents, and conditions precedent for the purchase of obligations guaranteed by a Federal agency. The Bank can purchase obligations under NPA's up to the lesser of individual agency legally authorized borrowing limits or amounts set forth in the NPA. The Bank may purchase obligations under PFAs up to amounts authorized in individual agency annual program appropriations. All NPAs and PFAs are renewed annually upon the request of the agency and at the discretion of the Bank.

Loan commitments represent the Bank's obligations to fund loans under fully executed promissory notes less the amount of previous loans advanced under the note and expired commitments. The Bank often uses a future advance promissory note structure allowing a borrower the contractual right to take a single or multiple advances under a note during an agreed upon allowable period for advance.

(Dollars in thousands)

(m) Classified Activities

The operating results of classified programs (those designated as classified by the U.S. Government which cannot be specifically described), if any, are included in our financial statements and are subjected to the same oversight and internal controls as our other programs.

(n) Tax-Exempt Status

The Bank is exempt from tax in accordance with Section 11(a) of the Federal Financing Bank Act of 1973 (12 USC 2281).

(o) Related Parties

The Bank conducts significant transactions in the ordinary course of business with the Department of Treasury and its components, which are considered related parties as defined by GAAP.

(2) Loans Receivable

Loans receivable represent the outstanding balances treated as loans to agencies. The Bank has the ability and intends to hold loans receivable until maturity or payoff. At September 30, 2022, the Bank had outstanding loans receivable of $81,751,674. Certain of these loans were funded using FCRA borrowing procedures. The outstanding amount of loans funded using FCRA borrowing procedures was $56,866,161 with interest rates ranging from 0.135% to 4.687%, a weighted average rate of 2.530%, and maturity dates ranging from October 3, 2022 to October 15, 2062. The remaining non-FCRA loans receivable of $24,885,513 had interest rates ranging from 0.188% to 8.544%, a weighted average rate of 3.187%, and maturity dates ranging from November 10, 2022 to December 31, 2054.

At September 30, 2021, the Bank had outstanding loans receivable of $79,959,441. The outstanding amount of loans funded using FCRA borrowing procedures was $52,832,872 with interest rates ranging from 0.041% to 4.687%, a weighted average rate of 2.456%, and maturity dates ranging from October 4, 2021 to October 15, 2061. The remaining non-FCRA loans receivable of $27,126,569 had interest rates ranging from 0.041% to 8.544%, a weighted average rate of 2.507%, and maturity dates ranging from October 15, 2021 to December 31, 2054.

Loans receivable at September 30, 2022 and 2021, consist of the following:

Agency	2022	2021
Rural Utilities Service, Department of Agriculture	$ 51,813,811	48,741,809
U.S. Postal Service	10,000,000	11,000,000
Department of Energy	15,449,416	15,903,524
Historically Black Colleges and Universities, Department of Education	270,122	160,362
Community Development Financial Institutions Fund, Department of Treasury	1,149,112	1,207,702
Department of Housing and Urban Development	2,715,969	2,630,313
Maritime Administration, Department of Transportation	349,281	311,675
Veterans Administration Transitional Housing Program	3,963	4,056
Total loans receivable	$ 81,751,674	79,959,441

The loans receivable due within one year are $10,092,041 and $11,768,051 as of September 30, 2022 and 2021, respectively.

(3) Borrowings

Under the Federal Financing Bank Act of 1973, the Bank may, with the approval of the Secretary, borrow without limit from the Treasury.

For certain borrowings used to fund certain guaranteed loans based on FCRA, the interest rate is determined annually by the borrowing agencies using FCRA and Office of Management and Budget guidelines. At September 30, 2022, the Bank had $56,635,126 of Treasury borrowings used to fund guaranteed loans based on FCRA with interest rates ranging from 1.3214% to 3.6100%, a weighted average rate of 2.511%, and maturity dates from September 30, 2050 to September 30, 2062. Under FCRA borrowing procedures, interest on borrowings from Treasury are not capitalized.

For the Bank's non-FCRA borrowings, repayments on Treasury borrowings generally match the terms and conditions of corresponding loans made by the Bank and bear interest at the respective rate, as determined by the Secretary, and are repayable at any time, except for loans with fixed-price call options in the no-call period. In November 2004, October 2013, and October 2015, certain borrowings from Treasury were refinanced under a debt limit transaction. At September 30, 2022, the Bank had $17,585,879 of Treasury borrowings for non-FCRA related loans, with interest rates ranging from 0.458% to 7.854%, a weighted average rate of 2.981%, and maturity dates from November 10, 2022 to August 16, 2049.

At September 30, 2021, the Bank had $52,540,709 of Treasury borrowings used to fund guaranteed loans based on FCRA with interest rates ranging from 1.3214% to 3.600%, a weighted average rate of 2.587%, and maturity dates from September 30, 2050 to September 30, 2061. Treasury borrowings for non-FCRA related loans were $18,625,015, with interest rates ranging from 0.041% to 7.854%, a weighted average rate of 1.968%, and maturity dates from November 12, 2021 to August 16, 2049.

The US Treasury may take certain extraordinary measures in the event that the public debt nears the statutory debt limit and a delay in raising the statutory debt limit occurs. During such a period, one option for US Treasury is to exchange outstanding Treasury securities, which are subject to the debt limit, for securities of the Bank, which are not subject to the debt limit, within the investment portfolio of the Civil Service Retirement and Disability Fund. At September 30, 2022 and 2021, the Bank had borrowings of $4,847,008 and $6,053,039, respectively, from the CSR&DF, which is administered by the Office of Personnel Management. At September 30, 2022, these borrowings were at an interest rate range of 2.25% to 2.875%, an effective interest rate of 2.529%, and with maturity dates ranging from June 30, 2023 to June 30, 2029. At September 30, 2021, these borrowings were at an interest rate range of 2.25% to 2.875%, an effective interest rate of 2.598%, and with maturity dates ranging from June 30, 2022 to June 30, 2029.

The scheduled principal repayments below reflect maturities of the Bank's borrowings and do not necessarily match the maturities of assets in the Bank's loan portfolio. Scheduled principal repayments of borrowings as of September 30, 2022 are as follows:

(Dollars in thousands)

Repayment date		Amount
2023	$	10,594,432
2024		4,357,570
2025		2,262,000
2026		3,163,159
2027		2,955,847
2028 and thereafter		55,735,005
Total borrowing	$	79,068,013

(4) Capitalized Interest

Capitalized interest receivable was $231,035 and $292,163, and the related capitalized interest payable was $773,819 and $665,030 as of September 30, 2022 and 2021, respectively. Capitalized interest receivable and payable are reported as part of the loans receivable and borrowing balances, respectively, on the statements of financial position. The difference between capitalized interest receivable and capitalized interest payable is due to the effects of debt limit transactions on October 1, 2013, and October 15, 2015. These transactions altered the structure of existing debt and capitalized interest.

(5) Loan Commitments

The Bank makes loan commitments to extend credit to Federal program agencies based on the loan agreements executed between the parties. The loan commitments are not reported on the statements of financial position and generally have fixed expiration dates or other termination clauses. Since many of the loan commitments are expected to expire without being completely drawn upon, the total loan commitment amounts do not necessarily represent future cash requirements. The Bank uses the same credit policies in making loan commitments as it does for loans receivable reported on the statements of financial position. The Bank funds the loan commitments with its borrowing authority from the Secretary. There is no exposure or credit risk related to these commitments.

The contract amounts and remaining loan commitments by program agency as of September 30, 2022, are as follows:

Agency		Contract Amounts	Remaining Loan Commitments
National Credit Union Administration – Central Liquidity Facility	$	25,000,000	25,000,000
Rural Utilities Service, Department of Agriculture		17,488,778	8,513,230
Department of Energy		2,099,783	837,783
Community Development Financial Institutions Fund, Department of Treasury		450,000	254,187
Historically Black Colleges and Universities, Department of Education		488,750	357,142
Total commitments	$	45,527,311	34,962,342

In addition to the above, the Bank has PFAs to purchase obligations guaranteed by the Department of Transportation's Maritime Administration (MARAD) and the Department of Housing and Urban Development, Section 542 Risk Sharing Program (HUD-542). MARAD and HUD-542 program activities are expected to continue in fiscal year 2023 but currently have no active commitments. Obligations purchased under the HUD-542 program are immediately disbursed upon transaction close. There are no outstanding commitments with the U.S. Postal Service.

The Bank has NPAs with the Federal Deposit Insurance Corporation and the Farm Credit System Insurance Corporation for them to offer notes for purchase up to $100,000,000, and $10,000,000 respectively. No notes under these two NPAs are currently active.

(6) Subsequent Events

The Bank has evaluated subsequent events from the balance sheet date through November 10, 2022, the date at which the financial statements were available to be issued and determined that there are no other items to accrue or disclose.

FEDERAL FINANCING BANK

Other Information – Schedule 1 (unaudited)

Unaudited – See Accompanying Auditors’ Report

September 30, 2022 and 2021

(Dollars in thousands)

In prior years, the Federal Financing Bank (the Bank) purchased certificates of beneficial ownership (i.e., loans reported as loans receivable on the statement of financial position) from the Rural Utilities Service (RUS), a component of the U.S. Department of Agriculture. RUS used the funds received from the Bank to issue loans to nonfederal entities, specifically private utility companies. In 1987, Congress passed legislation (7 USC Sec. 940c Cushion of Credit Payments Program) that required RUS to develop and promote a program to encourage private utility companies to voluntarily make deposits into cushion of credit accounts established within RUS. The legislation also indicated that a private utility company may reduce the balance of its cushion of credit account only if the reduction is used to make scheduled payments on loans received from RUS. In accordance with the legislation, the private utility companies were to accrue interest at a rate of 5% per annum. The legislation also indicated that RUS shall receive an interest credit from the Bank. The Bank recorded the interest credit in the period the cost was incurred as a legislatively mandated interest credit (contra-revenue to interest on loans) in the Statements of Income and Changes in Net Position.

The final payment on the certificates of beneficial ownership (CBO) legislation of $135,000 was made on September 30, 2021 and no outstanding balance exists as of September 30, 2022. In October 1998, the Bank received an appropriation that offset the RUS-CBO interest credits by $917,699.

The final amount of the interest credits that the Bank has provided RUS-CBO through September 30, 2021 are as follows:

		Amount
1988-2017	$	3,265,171
2018		10,734
2019		10,734
2020		10,734
2021		10,734
Total interest credits		3,308,107
Less appropriation		(917,699)
Total	$	2,390,408

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