Audit Report

OIG-20-009

FINANCIAL MANAGEMENT

Audit of the Federal Financing Bank's Financial Statements for Fiscal Years 2019 and 2018

November 8, 2019

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 8, 2019

MEMORANDUM FOR SECRETARY MNUCHIN

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

SUBJECT: Audit of the Federal Financing Bank's Financial Statements for Fiscal Years 2019 and 2018

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, 2019 and 2018, 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 19-03, *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.

KPMG also issued a management letter dated November 8, 2019, discussing a matter involving a deficiency in internal control that was identified during the audit but was not required to be included in the auditors' reports. This letter will be transmitted separately.

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 8, 2019, 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) 622-1090, or a member of your staff may contact Deborah Harker, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: David Lebryk
Fiscal Assistant Secretary

FEDERAL FINANCING BANK

Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Reports Thereon)

FEDERAL FINANCING BANK

Table of Contents

FEDERAL FINANCING BANK

Management's Discussion and Analysis (unaudited)

September 30, 2019 and 2018

(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 a debt obligation 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 principle is applied 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 guaranteed borrowers in accordance with agency program requirements. The Bank is capable of providing lending terms for any amount required and for nearly any maturity. The 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 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). As the office of Under Secretary for Domestic Finance is currently vacant, the Secretary of the Treasury, as Chairman of the Bank, has designated a temporary Bank President until the office of Under Secretary of Domestic Finance has been filled. 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 that 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 guaranteed borrowers in accordance with agency program requirements.

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 that are 100% guaranteed by Federal agencies.

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 a total borrowing authority of $15 billion. The USPS owed the Bank $11 billion as of September 30, 2019.

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, 2019. Interest on loans increased $451,773 to $2,837,053 for the fiscal year ended September 30, 2019 compared to the interest on loans of $2,385,280 for the fiscal year ended September 30, 2018, due primarily to increased borrower prepayments authorized in the Agricultural Improvement Act of 2018 (the 2018 Farm Bill).

Legislatively mandated interest credits reduced interest income by $10,734 in each of the fiscal years ended September 30, 2019 and 2018. Revenue from servicing loans of $1,292 for the fiscal year ended September 30, 2019 increased from $1,168 for the fiscal year ended September 30, 2018.

Interest on borrowings increased $313,290 to $2,344,617 for the fiscal year ended September 30, 2019 compared to interest on borrowings of $2,031,327 for the fiscal year ended September 30, 2018, due primarily to a larger amount of prepayments to Treasury due to the 2018 Farm Bill. After administrative expenses of $12,304, net income of $470,690 for the fiscal year ended September 30, 2019 increased from the net income of $332,814 for the fiscal year ended September 30, 2018.

Statements of Financial Position Highlights

Funds with U.S. Treasury of $2,082,911 at September 30, 2019, increased from the September 30, 2018 balance of $624,642 due primarily to funds received as part of borrower prepayments authorized in the 2018 Farm Bill.

The loan portfolio (loans receivable) decreased $320,169 from $76,897,896 at September 30, 2018 to $76,577,727 at September 30, 2019. The tables below list the increases and decreases contributing to the change in the loan portfolio.

Programs ($ 000)	**Net change**
Rural Utilities Service (RUS)	$ 898
Department of Housing & Urban Development	303,867
Community Development Financial Institution Fund (CDFI Fund)	321,212
United States Postal Service	(2,200,000)
Department of Energy	1,224,053
Historically Black Colleges and Universities, Department of Education	29,882
Other	(81)

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 $718,522 due to the timing of borrowers' prepayments and the Bank's repayments to the U.S. Treasury.

Net income of $470,690 increased the Bank's net position to $5,806,670 at September 30, 2019 from $5,335,980 at September 30, 2018.

Performance Highlights

During fiscal year 2019, the Bank processed 213 new loan commitments. The interest rate was set or reset on 4,175 loans in fiscal year 2019 for new loans and maturity extensions. The Bank processed 651 prepayments and 54,174 loan repayments in fiscal year 2019.

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 June 2019. 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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Financing Bank, which comprise the statements of financial position September 30, 2019 and 2018, and the related statements of income and changes in net position, and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Financing Bank as of September 30, 2019 and 2018, and its operations, changes in net position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Management's Discussion and Analysis and Other Information included in Schedule 1 are presented for

KPMG

purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2019, we considered the Federal Financing Bank's internal control over financial reporting (internal control) to determine the 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 may exist that have not been identified.

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, 2019 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 determination of financial statement amounts. 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. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section 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, District of Columbia
November 8, 2019

FEDERAL FINANCING BANK

Statements of Financial Position

September 30, 2019 and September 30, 2018

(Dollars in thousands)

		2019	2018
Assets:			
Funds with U.S. Treasury	$	2,082,911	624,642
Loans receivable (note 2)		76,577,727	76,897,896
Accrued interest receivable		667,344	489,001
Total assets	$	79,327,982	78,011,539
Liabilities and Net Position:			
Liabilities:			
Borrowings:			
Principal amount	$	73,186,158	72,465,119
Plus unamortized premium		–	2,517
Total borrowings (note 3)		73,186,158	72,467,636
Accrued interest payable		334,691	206,978
Other liabilities		463	945
Total liabilities		73,521,312	72,675,559
Loan and interest credit commitments (notes 1(n) and 5)			
Net position:		5,806,670	5,335,980
Total liabilities and net position	$	79,327,982	78,011,539

See accompanying notes to financial statements.

FEDERAL FINANCING BANK

Statements of Income and Changes in Net Position

September 30, 2019 and September 30, 2018

(Dollars in thousands)

		2019	2018
Revenue:			
Interest on loans	$	2,837,053	2,385,280
Less legislatively mandated interest credit		(10,734)	(10,734)
Net interest on loans		2,826,319	2,374,546
Revenue from servicing loans		1,292	1,168
Total revenue		2,827,611	2,375,714
Expenses:			
Interest on borrowings		2,344,617	2,031,327
Administrative expenses		12,304	11,573
Total expenses		2,356,921	2,042,900
Net income	$	470,690	332,814
Net position:			
Beginning of year	$	5,335,980	5,003,166
Net income		470,690	332,814
End of year	$	5,806,670	5,335,980

See accompanying notes to financial statements.

FEDERAL FINANCING BANK

Statements of Cash Flows

September 30, 2019 and September 30, 2018

(Dollars in thousands)

		2019	2018
Cash flows from operations:			
Net income	$	470,690	332,814
Adjustments to reconcile net income to net cash provided by operations:			
Amortization of premium on loans		(2,517)	(2,095)
Capitalization of interest receivable		(92,812)	(87,520)
Capitalization of interest payable		315,219	256,627
(Increase) decrease in accrued interest receivable		(178,343)	4,771
Increase (decrease) in accrued interest payable		127,713	(22,459)
(Decrease) increase in other liabilities		(482)	156
Net cash provided by operations		639,468	482,294
Cash flows from investing activities:			
Loan disbursements		(78,772,572)	(121,296,087)
Loan collections		79,185,553	122,264,857
Net cash provided by investing activities		412,981	968,770
Cash flows from financing activities:			
Borrowings		78,772,572	121,296,087
Repayments of borrowings		(78,366,752)	(122,253,524)
Net cash provided by (used in) financing activities		405,820	(957,437)
Net increase in cash		1,458,269	493,627
Funds with U.S. Treasury – beginning of the period		624,642	131,015
Funds with U.S. Treasury – end of the period	$	2,082,911	624,642
Supplemental disclosures of cash flow information:			
Interest paid (net of amount capitalized)	$	1,904,196	1,799,254

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 accounting principles generally accepted in the United States of America (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 the 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. The income resulting from the interest spread covers the administrative expenses of the Bank. Under amendments to the Federal Credit Reform Act (FCRA), effective October 1, 1998, while the Bank is permitted to charge a spread on new lending arrangements with government-guaranteed borrowers, the margin 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 Receivable on Legislatively Allowed Prepayments

Section 6503 of the Agriculture Improvement Act of 2018 (the 2018 Farm Bill) amended Section 313(a) of the Rural Electrification Act of 1936 (7 U.S.C. 940c(a)) (the REAct) to allow U.S. Department of Agriculture's Rural Utilities Service (RUS) borrowers to utilize Cushion of Credit account balances to prepay loans made or guaranteed under the REAct without prepayment premium (if any).

As of September 30, 2019, 82 RUS borrowers used this 2018 Farm Bill provision to prepay 514 loans totaling $1,995,994 and incurred $497,602 in unpaid prepayment premiums. Premiums on prepayments received by FFB are included in interest on loans on the Statements of Income and Changes in Net Position and accrued interest receivable on the Statements of Financial Position.

The FFB interprets REAct, as amended, to relieve the private sector borrower of the premiums associated with prepayment, but not RUS. RUS still retains the obligation under the Note Purchase Commitment and Servicing Agreement to pay to FFB guaranteed premiums. The $497,602 in prepayment premiums remain unpaid. There were no prepayment premiums related to the 2018 Farm Bill in 2018.

In accordance with GAAP, while it is reasonably possible that unpaid prepayment premiums will not be fully recovered, the potential for loss cannot be predicted at this time. Therefore no allowance has been recorded in the financial statements as of September 30, 2019 because Management believes that the Bank will collect the premiums or their equivalent in accordance with the Note Purchase Commitment and Servicing Agreement.

(h) Premium on Borrowings

The Bank amortizes the premium on borrowings using the interest method. The amortization is recorded as part of interest on borrowings on the Statements of Income and Changes in Net Position.

As a result of the 2018 Farm Bill, during 2019, the Bank incurred $229,050 of premiums on borrowings. These amounts are included in interest on borrowings on the Statements of Income and Changes in Net Position and accrued interest payable on the Statements of Financial Position. There were no premiums on borrowings related to the 2018 Farm Bill in 2018.

(i) 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).

(j) Legislatively Mandated Interest Credit

In prior years, the Bank purchased certificates of beneficial ownership (i.e., loans reported as loans receivable on the statement of financial position) from 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. In accordance with the legislation, the private utility companies accrue interest at 5% per annum on cash deposited into the cushion of credit accounts with RUS. The legislation also indicated that RUS shall receive an interest credit from the Bank equal to the amount of interest RUS pays to the private utility companies. 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.

(k) 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.

(l) 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 accounting 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.

(m) Net Position

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.

(n) 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 at the discretion of the Bank and the Federal agency.

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 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.

(o) Management's Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and 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 income and expenses during the reporting period. Actual results could differ from those estimates.

(p) 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).

(q) Related Parties

The Bank conducts most of its financial transactions with other Federal entities, and therefore, the financial statement balances that represent transactions with other Federal entities include all assets, liabilities, revenues, and expenses.

(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, 2019, the Bank had outstanding loans receivable of $76,577,727. Certain of these loans were funded using FCRA borrowing procedures. The outstanding amount of loans funded using FCRA borrowing procedures was $44,249,473 with interest rates ranging from 0.757% to 6.107% and maturity dates ranging from October 2, 2019 to September 15, 2059. The remaining non-FCRA loans receivable of $32,328,254 had interest rates ranging from 0.762% to 10.453% and maturity dates ranging from October 1, 2019 to December 31, 2054.

(Dollars in thousands)

At September 30, 2018, the Bank had outstanding loans receivable of $76,897,896. The outstanding amount of loans funded using FCRA borrowing procedures was $38,944,960 with interest rates ranging from 0.757% to 6.107% and maturity dates ranging from October 1, 2018 to October 15, 2058. The remaining non-FCRA loans receivable of $37,952,936 had interest rates ranging from 0.660% to 10.453% and maturity dates ranging from October 1, 2018 to December 31, 2054.

Loans receivable at September 30, 2019 and 2018, consist of the following:

Agency	2019	2018
Rural Utilities Service, Department of Agriculture	$ 46,153,647	46,152,749
U.S. Postal Service	11,000,000	13,200,000
Department of Energy	14,816,600	13,592,547
Rural Utilities Service, Department of Agriculture certificates of beneficial ownership	135,000	135,000
Historically Black Colleges and Universities, Department of Education	1,481,819	1,451,937
Community Development Financial Institutions Fund	1,017,060	695,848
Section 542 Risk Sharing, Department of Housing and Urban Development	1,969,372	1,665,505
Veterans Administration Transitional Housing Program	4,229	4,310
Total loans receivable	$ 76,577,727	76,897,896

The loans receivable due within one year are $10,714,742 and $16,817,988 as of September 30, 2019 and 2018, 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, 2019, the Bank had $43,852,528 of Treasury borrowings used to fund guaranteed loans based on FCRA with interest rates ranging from 2.03% to 4.06%, and maturity dates from September 30, 2050 to September 30, 2059. 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, 2019, the Bank had $20,524,432 of Treasury borrowings for non-FCRA related loans, with interest rates ranging from 0.762% to 8.113%, and maturity dates from October 1, 2019 to August 16, 2049.

(Dollars in thousands)

At September 30, 2018, the Bank had $38,626,731 of Treasury borrowings used to fund guaranteed loans based on FCRA with interest rates ranging from 2.03% to 4.06% and maturity dates from September 30, 2050 to September 30, 2058. Treasury borrowings for non-FCRA related loans of $23,498,930, with interest rates ranging from 0.721% to 8.307%, and maturity dates from October 1, 2018 to December 31, 2045.

Finally, at September 30, 2019 and 2018, the Bank had borrowings of $8,809,198 and $10,339,458, respectively, from the Civil Service Retirement and Disability Fund (CSR&DF), which is administered by the Office of Personnel Management. The associated unamortized premium of $2,517 in 2018 was fully amortized during 2019. At September 30, 2019, these borrowings were at an interest rate range of 2.25% to 2.875%, an effective interest rate of 2.685%, and with maturity dates ranging from June 30, 2020 to June 30, 2029. At September 30, 2018, these borrowings were at an interest rate range of 2.25% to 4.625%, an effective interest rate of 2.860%, and with maturity dates ranging from June 30, 2019 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, 2019 are as follows:

Repayment date	Amount
2020	$ 11,400,721
2021	3,128,101
2022	4,137,720
2023	2,675,982
2024	3,851,080
2025 and thereafter	47,992,554
Total borrowing	$ 73,186,158

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 FFB securities, which are not subject to the debt limit, within the investment portfolio of the CSR&DF.

(4) Capitalized Interest

Capitalized interest receivable was $397,543 and $319,668, and the related capitalized interest payable was $625,730 and $540,944 as of September 30, 2019 and 2018, 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 November 15, 2004, October 1, 2013, and October 15, 2015. These transactions altered the structure of existing debt and capitalized interest.

(Dollars in thousands)

(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, 2019, are as follows:

Agency		Contract Amounts	Remaining Loan Commitments
National Credit Union Administration – Central Liquidity Facility	$	2,000,000	2,000,000
Rural Utilities Service, Department of Agriculture		12,677,286	7,364,593
United States Postal Service		4,000,000	4,000,000
Department of Energy		9,972,288	4,281,244
Community Development Financial Institutions Fund		847,000	417,282
Historically Black Colleges and Universities, Department of Education		226,000	162,411
Total commitments	$	29,722,574	18,225,530

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 is expected to offer its first note for purchase in fiscal year 2020. HUD-542 program activity is expected to continue in fiscal year 2020 but currently has no active commitments. Obligations purchased under the HUD-542 program are immediately disbursed upon transaction close.

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 8, 2019, 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 – See Accompanying Auditors' Report

September 30, 2019 and 2018

(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 accrue interest at a rate of 5% per annum. The legislation also indicated that RUS shall receive an interest credit from the Bank equal to the amount of interest RUS pays to the private utility companies. 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. As of September 30, 2019, the outstanding principal balance of the RUS loan subject to the certificates of beneficial ownership (CBO) legislation totaled $135,000, with an interest rate of 7.951%, and a maturity date of September 30, 2021. In October 1998, the Bank received an appropriation that offset the RUS-CBO interest credits by $917,699.

The interest credits that the Bank has provided RUS-CBO through September 30, 2019 are as follows:

		Amount
1988-2015	$	3,230,252
2016		24,185
2017		10,734
2018		10,734
2019		10,734
Total interest credits		3,286,639
Less appropriation		(917,699)
Total	$	2,368,940

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