

# **Federal Housing Finance Agency**



**FY 2009 Performance Plan**

**December 15, 2008**

# **Federal Housing Finance Agency** **FY2009 Annual Performance Plan**

## ***Introduction***

I am pleased to present the FY2009 Annual Performance Plan (the Plan) for the newly established Federal Housing Finance Agency (FHFA). On July 30, 2008, the President signed into law the Housing and Economic Recovery Act of 2008 (HERA), which created a new, single regulator with bank regulator-like powers and strengthened authorities necessary to oversee the safety and soundness of the vital components of our country's secondary mortgage markets – Fannie Mae, Freddie Mac, the Federal Home Loan Banks (14 housing-related GSEs) and the FHLB's Office of Finance. In addition, HERA combined the staffs of the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB), and the GSE mission office at the Department of Housing and Urban Development (HUD). The signing of this bill achieved one of OFHEO's three strategic goals.

As a new regulator with expanded responsibilities, this detailed Plan reflects the enhanced goals necessary to carry out our combined mission. The attached budget will ensure that the important work of OFHEO, FHFB, and HUD will continue as we implement the requirements of the new law while supervising the country's secondary mortgage markets. To do this, our FY2009 budget has been developed to meet the ambitious goals of FHFA in carrying out its new statutory mission.

## **Market Impact**

With a very turbulent market facing our nation, the strengthening of the regulatory and supervisory oversight of Fannie Mae, Freddie Mac (the Enterprises), and the Federal Home Loan Banks (FHLBanks) is critical. The establishment of FHFA should promote a stronger, safer U.S. housing finance system. As of September 2008, the combined debt and obligations of the 14 housing-related GSEs totaled \$6.8 trillion, exceeding the total publicly held debt of the UNITED States by \$1.0 trillion. The GSEs also purchased or guaranteed 86.9% of new mortgages for the quarter ending June 30, 2008. Considering the impact of these GSEs have on the U.S. economy and mortgage market, it is critical that we intensify FHFA's focus on three main goals

1. Enhance supervision to ensure that Fannie Mae, Freddie Mac and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized and comply with legal requirements.
2. Promote homeownership and affordable housing and support an efficient secondary mortgage market.

3. Conserve the assets and property of Fannie Mae and Freddie Mac and enhance their ability to fulfill their mission during the conservatorship period.

This new agency must fulfill its mission during an unprecedented dislocation in the housing finance markets as well as its detrimental impact on the domestic and global financial system and economy. FHFA's regulatory approach will address the unique differences in risks of the Enterprises and FHLBanks, which include capital structures, the FHLBanks' cooperative form of organization and the joint-and-several nature of the consolidated obligations issued by the FHLBanks. FHFA will play an important role in defining the Enterprises' future structure and roles, and will employ a flexible and effective regulatory program that promotes market stability and the GSEs safety and soundness.

## **Performance Plan**

This Plan outlines three strategic goals, a resource management strategy and a series of performance goals and measures for FY2009. FHFA is working quickly to establish the regulatory framework needed to ensure that the operations and activities of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks foster liquid, efficient, competitive, and resilient national housing markets, while promoting safety and soundness in the operations of those housing GSEs. The means and strategies are the key activities, actions, processes and technologies that describe how FHFA will use its fiscal year 2009 resources to achieve each performance goal.

As Director of FHFA and Conservator of Fannie Mae and Freddie Mac, I commit that we will use all of the regulatory authorities granted by HERA to ensure that the housing GSEs provide stability and liquidity to the mortgage market, support affordable housing, and operate safely and soundly.

**Mission:** To promote a stable and liquid mortgage market, affordable housing and community investment through safety and soundness oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

**Strategic Goal 1:**

**Enhance supervision to ensure that Fannie Mae, Freddie Mac and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.**

FHFA’s primary duty as a regulator is to ensure the safety and soundness of the 14 Housing GSEs so that they have the financial strength and operational capacity to fulfill their important role in the nation’s housing finance system. Providing a comprehensive and effective oversight program requires attention to the GSEs’ operations and management, the risks inherent in their activities and the dynamic environment in which they operate. FHFA will strengthen oversight by assessing lessons learned from prior OFHEO and FHFB examinations, proactively issuing additional guidance and reviewing work through a quality-assurance function. The new regulatory structure allows FHFA to take advantage of the experience of regulating the Enterprises and the FHLBanks, providing fresh perspective and alternate approaches on regulatory issues and collaboration in identifying issues that may affect all 14 GSEs. FHFA will enhance and strengthen its oversight by applying meaningful risk-based standards, assessing the GSEs’ changing risk profiles, targeting resources to diagnose emerging issues, monitoring adherence to law and regulation, verifying that required improvements are made, taking remedial action, and following through on litigation that can result from enforcement actions.

**Performance Goal 1.1:**

Fannie Mae and Freddie Mac (the Enterprises) comply with safety and soundness standards.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
1.1(1) <b>PART</b>	The percentage of Enterprises with a composite GSE Enterprise Risk safety and soundness rating of “Limited Concerns” or better.	100%
1.1(2): <b>PART</b>	For both Enterprises, the percentage of GSE Enterprise Risk categories (Governance, Solvency, Earnings, market, credit, and operational risk) with a safety	75% for both Enterprises

and soundness rating of “Limited Concerns” or better (1 or 2).

### **Means & Strategies:**

FHFA conducts risk-based supervision and examinations at each Enterprise with a primary goal of ensuring that they operate in a safe and sound manner. Throughout the examination and supervision process, FHFA works with the Enterprises to resolve issues identified as quickly as possible, by requiring a corrective action plan and monitoring its implementation. The findings from the examinations are presented to Enterprise management and/or to their Boards of Directors so that they can ensure that changes are made. FHFA also makes its conclusions about the condition of the Enterprises public through its annual Report to Congress. To accomplish these measures, FHFA:

- Announced the appointment of three Acting Deputies, including the Deputy to oversee the risk based supervision and examinations of the Enterprises by July 31, 2008, one day after the President signed the legislation creating the FHFA. See Appendix A on page 59 for new organization chart.
- Continue to use a continuous supervision process that includes on-site examination and off-site monitoring and analysis. The agency will continue to use a horizontal examination strategy to ensure that both Enterprises are reviewed using the same standards.
- Will conduct targeted examinations that focus in depth on a specific topic that are identified as risk or risk management issues warranting further investigation, In FY 2009, FHFA’s targeted examinations may include new products and programs, and high risk issues including those that contributed to the appointment of the conservator.
- Review on an ongoing basis the financial performance of the Enterprises and related risk metrics, reassessing the risk profile of each Enterprise continuously to focus its resources appropriately on the areas of most concern.
- Continue to provide ongoing conclusions to Enterprise management and/or Enterprise Boards of Directors to ensure timely corrections and improvements.
- Continue to make determinations about the Enterprises’ condition based on the agency’s newly adopted safety and soundness rating system - GSE Enterprise Risk rating system (GSEER). The GSEER focuses supervision

resources on the vital elements of the Enterprises' condition and allows for an efficient, effective assessment of the Enterprises and better captures the risks that are central to an Enterprises' safety and soundness assessment that is a combination of the bank-like measures used in prior years. This will be the second year the GSEER has been used.

- Continue to consider six broad categories of risk in the GSEER that are central to the Enterprises' safety and soundness (Governance, Solvency, Earnings, and Enterprise Risk which is composed of credit risk, market risk and operational risk) and . . . provide both a composite rating and a category rating for each of these six risk categories
- Use the enforcement authorities at its disposal, as circumstances warrant, that could include entering into agreements with the Enterprises and issuing directives and supervisory letters.
- Issue the annual Report of Examination, which consolidates findings and presents a comprehensive assessment of the Enterprise, to the Enterprises' Boards of Directors. FHFA will also meet with the Boards to discuss its findings and concerns, and anticipates issuing the Annual Report of Examination to the Boards and meeting with the Boards in March.
- Continue to monitor developments in the market related to sub-prime and non-traditional mortgage products.
- Continue to monitor developments in the market related to non-performing loans, counterparty risk, capital, liquidity, accounting, and internal controls.
- Continue to monitor the Enterprises' implementation of accounting developments and standards, including changes to FAS 140, FIN 46R, and the adoption of International Financial Reporting Standards (IFRS).
- Continue to monitor Enterprise disclosures through ongoing supervision efforts and review key areas of executive compensation, including compliance with the executive compensation regulation on a case-by-case basis.
- Continue to monitor the early-alert triggers described in the Prompt Supervisory Response regulation, so that any needed regulatory response would be timely.

**Performance Goal 1.2:**

The FHLBanks comply with safety and soundness standards.

<u>Measure</u>	<u>Target</u>
1.2(1) Percentage of FHLBanks with a composite rating of “1” or “2.”	75%
1.2(2): Augment and strengthen off-site monitoring and risk analysis.	September 30, 2009

**Means & Strategies:**

Evaluating the performance, condition, and risk profile of each FHLBank through on-site examinations is the cornerstone of a strong safety and soundness supervisory program. As part of each examination, staff: (1) assess the FHLBanks’ management of the credit, market, and operational risks that arise from its business and operations; (2) evaluate the FHLBank’s financial condition and performance, capital adequacy, and corporate governance; and (3) assess the FHLBank’s compliance with federal laws, rules, and regulations. During annual on-site examinations conducted in FY 2009, FHFA will evaluate the actions taken by institutions in response to supervisory findings identified during the previous year’s on-site Examination. Therefore, FHFA will:

- Continue to strengthen its risk-based supervision program using continuous processes that include on-site examinations, off-site monitoring and analysis, and horizontal reviews to ensure consistency among the FHLBanks.
- Conduct targeted, in-depth examinations that focus on specifically identified areas of risk or risk management that warrant further investigation.
- Review continuously the financial performance of the FHLBanks and related risk metrics, reassessing the risk profile of each FHLBank in order to focus its resources appropriately on the areas of most concern.
- Develop and update metrics and analytical framework for evaluating the capital strength, governance practices, credit risk, market risk, operational risk, and affordable housing program activities of the FHLBanks to maintain a scorecard for the FHLBanks individually and collectively.
- Continue efforts to streamline and automate the model bank infrastructure used to evaluate FHLBanks’ income projections and consider alternative market risk management strategies.



- Continue to monitor developments in the market related to sub-prime and non-traditional mortgage products.
- Continue to monitor developments in the market related to non-performing loans, counter-party risk, capital, liquidity, accounting and internal controls.
- Review the current examination rating system to determine if changes are needed to better monitor potential effects of difficulties in the nation's housing markets and banks.
- Develop component ratings based on the monitoring programs implemented in FY 2009 to validate and/or supplement examination ratings.
- Prepare timely and substantive reports of examination.

**Performance Goal 1.3:**

Fannie Mae and Freddie Mac (the Enterprises) are adequately capitalized.

<b><u>Measure</u></b>	<b><u>Target</u></b>
1.3(1): <b>PART</b> Publish relevant capital information including minimum capital requirement, core capital, and GAAP net worth on FHFA's website.	Updated at least quarterly <sup>1</sup>
1.3(2): Begin to measure the Enterprises against an alternative risk-based capital standard as a measure of adequate regulatory economic capital.	By the end of the fiscal year

**Means & Strategies**

Capital adequacy is an essential component of Enterprise safety and soundness and their continued financial viability. In recent years, both Enterprises have been required to hold 30% more capital than the minimum amount to account for the accounting and internal control issues each Enterprise is in the process of correcting. Although both Enterprises achieved a surplus above the statutory capital requirement as of June 30, 2008, there were circumstances in the fourth quarter of the fiscal year which caused the FHFA Director to place both

---

<sup>1</sup> Regulatory required Quarterly Capital Classification of Fannie Mae and Freddie Mac has been suspended for FY2009.

Enterprises in conservatorship on September 6, 2008. On a combined basis, the Enterprises raised over \$22.8 billion of capital over the course of the FY2008. However, mounting Enterprise losses combined with rapidly deteriorating market conditions raised questions of capital sufficiency. Further, the lack of investor confidence in the Enterprises eliminated their ability to raise new equity in the market.

During the conservatorship, FHFA will not issue a quarterly capital classification. The Enterprises will continue to submit capital reports to FHFA during the conservatorship. Relevant capital figures including minimum capital requirement, core capital, and GAAP net worth will be available on FHFA's website to ensure market transparency. FHFA does not intend to publish critical capital, risk-based capital, or subordinated debt levels during the conservatorship.

Key components of the effort to stabilize capital levels of Fannie Mae and Freddie Mac are the three finance facilities announced by the Department of the Treasury – the GSE Credit Facility, the MBS Purchase Program and the Senior Preferred Stock Purchase Agreement. These three facilities allow the Department of Treasury to provide liquidity to the Enterprises and the market as follows:

- Make short-term loans to Fannie Mae, Freddie Mac or the 12 Federal Home Loan Banks using their mortgage backed securities (MBS) and advances as collateral through the GSE Credit Facility.
- Purchase Fannie Mae or Freddie Mac MBS directly with Treasury funds through the MBS Purchase Program.
- Inject capital up to \$100 billion into each Enterprise in exchange for senior preferred stock to ensure the Enterprises maintain a positive net worth through the Senior Preferred Stock Purchase Agreement. The Senior Preferred Stock facility provides Department of Treasury support to all past and future senior and subordinated debt and MBS issuances until the terms of the facility are completely satisfied.

In addition FHFA will:

- Continue to monitor capital levels, but the regulatory capital requirements will not be binding during the conservatorship.
- Continue the timely, accurate assessment and reporting of the capital adequacy of each Enterprise, and will make relevant capital figures available on its web site.
- Complete the development of a new risk-based capital standard that is based on a market valuation approach and begin using it to measure the Enterprises capital adequacy. This new model will include market, credit

and operational risk components and will provide an additional economic capital perspective as a complement to the minimum capital requirement in assessing capital adequacy. The development of a new risk-based capital standard is a multi-year project intended to result in a regulatory economic capital model that serves as the basis for a risk-based capital requirement. FHFA will begin using this model for analysis of the Enterprises' capital during FY 2009.

- Ensure that each Enterprise and the FHFA have economic capital models in operation that guide Enterprise management in assessing capital adequacy relative to evolving risk exposures and assist FHFA's assessment of Enterprise risk management and capital adequacy.
- Develop a quantifiable capital measure for operational risk to apply to the Enterprises as part of a risk-based economic capital model. This measure would ensure appropriate capital is held to account for losses from inadequate or failed internal processes, people, and systems, or from external events.
- Continue to make improvements to the capital regulation within its current statutory authority, by updating the data, methodologies and risk-measurement components in the risk-based capital stress test.
- Continue to review the impact of trends in market interest rates, house prices, mortgage product originations, and asset-liability management actions on the Enterprises' portfolio composition and capital requirements.

**Performance Goal 1.4:**

The FHLBanks are adequately capitalized.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
1.4(1):	The FHLBanks meet FHFA's determination of capital adequacy.	By the end of the fiscal year
1.4(2):	Issue new risk-based capital rules, regulations and guidance as required by HERA.	By the end of the fiscal year

**Means & Strategies**

The FHLBanks are privately capitalized, government-sponsored enterprises that provide wholesale credit to members and certain non-members to be used for mortgage lending. The FHLBanks had combined assets exceeding \$1 trillion by September 30, 2008.

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

Consolidated obligations are not guaranteed or insured by the U.S. government. Consolidated obligations issued by the FHLBanks through the Office of Finance (OF) are the joint and several obligations of all 12 FHLBanks.

Members use short- and long-term advances (collateralized loans) to fund lending activities and to maintain liquidity for their operations. Members can use long-term advances only to support residential housing finance and, in the case of a community financial institution, to also support lending to small businesses, small farms, and small agricultural businesses. The preponderance of the collateral supporting advances consists of mortgage assets.

In addition to advances, the FHLBanks purchase qualifying mortgage loans from members under various acquired member asset programs. Under these programs, the FHLBanks manage the market risk associated with the loans while members bear most of the credit risk through loss-sharing arrangements or the purchase of mortgage insurance for the loans sold to the FHLBanks. FHFA will:

- Issue capital rules for the FHLBanks that include prompt corrective action categories and critical capital levels.
- Enhance assessment of market risks and market risk management by providing capital markets examination staff with risk modeling, market risk exposure, and market risk management evaluations.
- Conduct supervisory, examination and monitoring activities to ensure the FHLBanks maintain adequate capital
- Issue regulations establishing standards by which the Director may, by order, temporarily increase minimum capital levels of an FHLBank.
- Provide reports to examiners at the beginning of each examination to assist with scoping of risk areas identified through models, analysis of data, and research metrics.
- Continue to review the impact of trends in market interest rates, housing prices, mortgage product originations, and asset-liability management actions on the FHLBanks' portfolio composition.

**Performance Goal 1.5:**

Fannie Mae and Freddie Mac comply<sup>2</sup> with applicable laws, regulations, directives and agreements, including executive compensation, corporate responsibility and disclosure.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
1.5(1):	Any identified instances of non-compliance with laws and regulations are resolved to FHFA's satisfaction.	100%
1.5(2): <b>PART</b>	The percentage of actions required by formal regulatory agreements with the Enterprises that are resolved as planned.	100%
1.5(3)	The percentage of Matters Requiring Attention (MRA) that are resolved on time to FHFA's satisfaction.	80% with incremental increases in FY2010 to 85% and 90% in FY2011.

**Means & Strategies:**

Compliance with applicable laws and regulations, as well as formal agreements and directives, is paramount to the safety and soundness of each Enterprise. FHFA seeks an enforcement and compliance regime that is prompt, reasonable, effective and transparent. During FY2009, FHFA will continue to actively monitor and review compliance of the Enterprises through its supervision processes and follow through on enforcement actions, including litigation, stemming from the special examinations of Fannie Mae and Freddie Mac and undertake additional supervisory actions if new or additional violations of law or regulation are discovered at either Enterprise.

- Ensure that FHFA examinations identify problems at each of the Enterprises related to credit risk, financial reporting, accounting, internal controls and operational risk, and the Enterprises have agreed to address these issues through specific changes outlined in supervisory letters and/or formal agreements with the agency.

---

<sup>2</sup> Compliance indicates that the Enterprise has submitted the required item on time and OFHEO has validated it and finds it acceptable and sustainable. Compliance does not necessarily indicate that the Enterprise has fully resolved the underlying problem. Resolved to OFHEO's satisfaction indicates that the Enterprise has corrected the item and it has been validated by OFHEO.

- Continue to monitor the Enterprises efforts to ensure that actions taken are sustainable with the understanding that these changes will take some time to fully implement.
- Conduct targeted examinations of the Enterprises to assess compliance with applicable laws, including the Enterprises' charters, regulations, directives, and other safety and soundness standards. Such examinations are focused on issues, transactions, or events identified through the supervision process within FHFA or from other sources.
- Review the Enterprises for compliance with the executive compensation regulation.
- Continue to monitor the Enterprises' measurement and management of operational risk through the examinations process and issue guidance on operational risk in FY 2009.
- Require the Enterprises to resolve non-compliance issues, including those that do not rise to the level of a formal agreement. When Enterprise non-compliance is identified, FHFA may initiate appropriate enforcement actions to correct it and ensure satisfactory compliance on a continuous basis.
- Take supervisory action as necessary within its authorities relating to safety and soundness and the charter acts should another regulator or a judicial body determine a violation of law under a statute not within direct FHFA enforcement authority,

**Performance Goal 1.6:**

The FHLBanks comply with applicable laws regulations, directives and agreements, including executive compensation, corporate responsibility and disclosure.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
1.6(1):	Any identified instances of non-compliance with laws and regulations are identified and resolved to FHFA's satisfaction.	100%
1.6(2)	Continue implementing enhancements to the quality assurance program.	September 30, 2009

1.6(3) Establish a Matters Requiring Attention (MRA)-like measure for tracking follow-up recommendations from annual exams

September 30, 2009

**Means & Strategies:**

Compliance with applicable laws and regulations and formal agreements are paramount to the safety and soundness of the FHLBanks. Supervising the FHLBanks is a dynamic activity requiring staff expertise in many disciplines including accounting, capital markets, community and economic development, economic and financial analysis, financial modeling, information technology, law, lending, and risk management. An examiner-in-charge (EIC) is assigned to each FHLBank and to the Office of Finance and draws on the knowledge and skills of other examiners and agency staff to conduct supervisory activities. The EIC, in consultation with other agency staff, identifies key risks, including market, credit, and operational risks at an FHLBank, and develops a supervisory strategy. The supervisory strategy allocates resources to risk areas for an individual FHLBank. To accomplish this, the FHFA will:

- Assess adequacy of retained earnings and prudence of market risk limits of the FHLBanks and their compliance with those limits.
- Conduct risk-focused examinations to assess compliance with applicable laws and to monitor progress in areas identified as needing improvements.
- Review safety and soundness examination findings with the FHLBanks to ensure they are making progress to remedy identified shortcomings
- Evaluate the consistency of examination ratings standards across the 12 FHLBanks and among the three principal examination teams.
- Provide appropriate and supportable supervisory findings and conclusions in the report of examination that clearly document FHLBanks ratings.
- Update examination work programs, field test, and implement changes to better ensure compliance with existing regulations as well as identify areas of risk.
- Review FHFA compliance with internal policies and procedures using its quality assurance process resulting in continuous improvements to its examination and supervisory programs and policies, guidelines, procedures, and manuals.

**Performance goal 1.7:**

Implement the Housing and Economic Recovery Act of 2008 (HERA) and strengthen regulatory infrastructure to enhance the supervision of the Fannie Mae and Freddie Mac.

<u>Measure</u>	<u>Target</u>
1.7(1): Revise and implement policies, guidance and regulations for both Enterprises to augment current regulatory infrastructure and meet statutory requirements.	Meet quarterly milestones
1.7(2) Assess FHFA's supervisory standards against relevant industry standards to identify possible gaps or areas for improvement.	Complete assessment report
1.7(3): Percentage of quality assurance recommendations implemented in the supervision program.	Establish Baseline
1.7(4) The Enterprises submit data based on FHFA's call report regulation.	Within six months of final rule

### **Means & Strategies**

FHFA will enhance its regulatory infrastructure in 2009 to provide for more comprehensive and in-depth supervision of the Enterprises to prevent problems from arising or worsening and to facilitate quick resolutions. FHFA is building on lessons learned from the special examinations and other regulators to improve its external guidance and internal operations.

- Develop and expand its published regulations, policy statements, guidances and directives on a variety of topics to improve the transparency of the supervision process to augment its current regulatory infrastructure. For example, in FY2009, FHFA will begin to develop accounting guidance for critical accounting risk areas.
- Complete a plan for regulatory improvements and will hold itself accountable for achieving this plan. It will include new or updated policy guidance on corporate governance and accountability at the Enterprises, mortgage fraud and capital, as well as proposed regulations related to conservatorship, an Enterprise call report and changes to the Prompt Supervisory Action/Prompt Corrective Action regulation.
- Review its own compliance with internal policies and procedures using its quality assurance process, resulting in continuous improvements to its



examination and supervision program and supervision policy, guidelines, procedures, supervisory handbook development and oversight.

- Use a uniform call report for the Enterprises to provide for more consistent reporting and disclosure of information by the Enterprises that will primarily be used to facilitate FHFA’s monitoring and analysis of the Enterprises. FHFA also plans to conduct comparative analysis of key financial performance and risk measurement factors related to the Enterprises using this and other data.
- Continue to expand the implementation of its automated supervisory tool (XWorks) to enhance the planning, organization, management, and documentation of its enforcement and supervision activities in an integrated way. These enhancements will be consistent with the approved five-year strategic plan for the automated supervisory system.
- Further enhance its supervision of the Enterprises by incorporating applied research and analysis of a wide range of safety and soundness issues, including systemic risk. This applied research informs all aspects of the supervision function, including capital requirements and examination processes, and assists FHFA in determining where more in-depth evaluation is needed.
- Enhance FHFA knowledge and understanding of GSE mission and affordable housing requirements as they relate to the business operations of the Enterprises and their safety and soundness. This will give FHFA a stronger ability to validate claims by the Enterprises of a need to engage in certain business activities.
- Perform analysis and research as part of the enhancement of policies related to the risks the Enterprises face with affordable housing, new products, activities and operations. In addition, develop benchmarks based on the best practices of other institutions with similar products and activities.

**Performance Goal 1.8:**

Implement HERA and strengthen regulatory infrastructure to enhance the supervision of the FHLBanks.

<b><u>Measure</u></b>	<b><u>Target</u></b>
1.8(1): Revise and implement policies, guidance and regulations for the FHLBanks as required by law.	By the end of the fiscal year

1.8(2): Implement the requirements of the Federal As required by the Act  
Housing Regulatory Reform Act of 2008.

### **Means & Strategies**

FHFA will continue to supervise the FHLBanks and implement the new statutory requirements of the Federal Housing Finance Regulatory Reform Act of 2008 as follows:

- Conduct a study on securitization of home mortgage loans purchased or to be purchased by FHLBanks from members, including development of a process that will be used for formal submission of comments and consultations with FHLBanks, the FHLBanks' fiscal agents, mortgage lending industry representatives, practitioners in the structured finance field, and other experts, as needed.
- Complete the first semi-annual report to Congress on the projected completion date of FHLBanks' REFCorp contributions and provide Congress, annually, with the following reports: 1) FHLBank performance in meeting their housing goals; 2) compensation and expenses paid by FHLBanks to their board directors.
- Conduct a study and submit a report to Congress on the extent to which loans and securities used as collateral to support FHLBank advances are consistent with interagency guidance on nontraditional mortgage products.
- Establish standards, by regulation or guideline, for prudential management and operations standards of the FHLBanks.
- Establish conditions and procedures for the agency's consideration and approval of any voluntary merger, including procedures for FHLBank member approval.
- Develop a method for FHLBanks to report census tract level data relating to purchased mortgages so that such data is made available to the public.
- Amend the regulation regarding FHLBank directors.
- Adopt a regulation addressing the new FHLBank authority to set compensation for its directors.
- Determine whether to adopt regulations to give the Director authority over executive compensation at the FHLBanks.

- Amend regulations to establish membership criteria for “community development financial institutions.”

**Performance goal 1.9:**

The FHLBanks individual and combined financial statements comply with applicable laws, rules, and regulations.

<b><u>Measure</u></b>	<b><u>Target</u></b>
1.9(1): Conduct an on-site examination of the Office of Finance and review annual and quarterly statements issued by the Office of Finance for compliance with disclosure requirements.	By the end of the fiscal year.

**Means & Strategies**

To the extent that the FHLBanks effectively identify and manage risk, remain adequately capitalized, and raise funds in the markets, the more likely they are to operate safely and soundly. Further, it is up to FHFA to ensure that the FHLBanks to act promptly to correct deficiencies and ensure their individual and combined financial statements comply with applicable laws and regulations. FHFA will:

- Develop a rating scheme for the examination of the Office of Finance that considers governance, operations risk, issuing/servicing debt, and combined financial reports.
- Develop a system for the timely review of and comment on FHLBanks’ 10Q and 10K SEC filings.
- Review changes in accounting principles and auditing guidance, and enhance policy guidance as needed in light of issues affecting the FHLBanks.
- Conduct ongoing independent financial analysis and provide examiners with a series of monitoring and analysis reports during the pre-examination planning process to better focus examiner on-site activities.

**Strategic Goal 2:**

**Promote homeownership and affordable housing and support an efficient secondary mortgage market.**

Fostering an efficient secondary mortgage market is the best way to ensure that there is a steady stream of funds for homeownership and affordable housing. The market has become increasingly dynamic and complex. Fannie Mae and Freddie Mac comprise a large share of that market. These companies contribute to the smooth operation of the markets by providing liquidity and stability and meeting affordable housing goals. For any market to work efficiently, its participants must have access to reliable information to make decisions. FHFA will work with other Federal agencies to coordinate efforts that could affect the secondary mortgage market, and will provide information and analysis to the public for informed decision-making to encourage market efficiency. Development and enforcement of the Enterprises' affordable housing goals established by Congress and new product authority, which was once the responsibility of HUD, is now the responsibility of FHFA. FHFA will use the new authority related to the housing goals to promote homeownership and affordable housing and use the additional authority related to new products to ensure the Enterprises activities are consistent with their charter and that they support an efficient secondary market.

The Federal Home Loan Banks serve as an important source of liquidity for housing finance by accessing the capital markets to provide advances to their members. The FHLBanks dedicate a portion of their annual earnings to fund an Affordable Housing Program, which is designed to leverage additional resources for affordable housing. Although mortgage purchases are a very small portion of the Banks' line of business, housing goals further encourage market efficiency.

A first step in achieving this Strategic Goal will be to establish and staff the Division of Housing Goals and Mission, as required by HERA. This will be accomplished by combining OFHEO, FHFB, and HUD staff into a cohesive, coordinated unit.

**Performance Goal 2.1:**

Develop proposed and final regulations to implement statutory changes in Fannie Mae and Freddie Mac affordable housing goals effective January 1, 2010 while enforcing existing goals.

<b><u>Measure</u></b>	<b><u>Target</u></b>
2.1(1): Develop proposed rule implementing statutory changes in Fannie Mae and Freddie Mae affordable housing goals and duty to serve.	March 31, 2009
2.1(2) Develop final rule implementing statutory changes in Fannie Mae and Freddie Mac affordable housing goals and duty to serve.	September 30, 2009

2.1(3) Determine applicability of existing 2008 affordable housing goals to 2009 goals. Enforce Fannie Mae and Freddie Mac 2009 affordable housing goals	April 30, 2009 regarding applicability of 2008 housing goals to 2009. Enforcement of 2009 housing goals ongoing.
--	--

**Means & Strategies:**

- Review statutory requirements required to implement statutory changes in Fannie Mae and Freddie Mac affordable housing goals, including duty to serve effective January 1, 2010, consult with major stakeholders and analyze the existing mortgage market in order to develop a proposed regulation to be published by March 31, 2009.
- Following publication of the proposed regulation on affordable housing goals and duty to serve, FHFA will review comments received, consult with major stakeholders, continue market analysis and publish a final rule by September 30, 2009.
- Determine whether 2008 housing goals will apply to 2009 by April 30, 2009 by consulting with major stakeholders, analyzing the existing mortgage market, and proposing changes, if any, in a public notice that provides for a thirty day public comment period.
- Enforce existing affordable housing goals in an ongoing manner, including monthly meeting with Fannie Mae and Freddie Mac to discuss progress on affordable goals achievement.

**Performance Goal 2.2:**

The Federal Home Loan Banks foster the development of affordable owner-occupied and rental housing for eligible very low-, low- and moderate-income households.

<b><u>Measure</u></b>	<b><u>Target</u></b>
2.2(1) Establish interim target housing goals for the FHLBanks.	January 1, 2009.
2.2(2): The FHLBanks address principal affordable housing examination findings to FHFA's satisfaction prior to the next examination	By the end of the fiscal year.

- |         |  |   |
|---------|--|---|
| 2.2(3): | The FHLBanks distribute affordable housing funds consistent with the AHP statute, regulations, FHFA and bank policies. | By the end of the fiscal year.                                  |
| 2.2(4)  | Issue regulations implementing HERA's temporary authority to use AHP funds to preserve homeownership.                  | Interim Final Rule by October 2008; Final Rule by February 2009 |

**Means & Strategies:**

- Review affordable housing and community investment examination findings with the FHLBanks semi-annually to ensure that the FHLBanks are making progress to remedy identified shortcomings.
- Develop an Affordable Housing Program examination rating system and examination manual emphasizing the evaluation of the FHLBanks' achievement of intended outcomes in affordable housing.
- Conduct affordable housing oversight activities, including annual examination and off-site monitoring. It will enhance off-site monitoring with a standardized set of verifiable information that can be replicated and used to ensure consistency across the FHLBanks.
- Use examinations to review program effectiveness as well as compliance with the Bank Act, FHFA regulations and FHLBank policies.
- Collect mortgage purchase loan data and monitor FHLBank performance toward meeting their annual housing goals.

**Performance Goal 2.3:**

Promote an efficient secondary mortgage market by increasing transparency of mortgage market developments, and 14 Housing GSE's risks and activities.

<b><u>Measure</u></b>	<b><u>Target</u></b>
2.3(1): Enhance FHFA's reporting on house prices by developing a median House Price Index (HPI) utilizing data from outside sources in addition to Enterprise data.	By the end of the fiscal year
2.3(2): Report on FHFA activities examination results and conclusions for all 14 housing-related GSEs in the FHFA Annual Report	By April 10, 2009

to Congress.

- |   |                        |
|---|------------------------|
| 2.3(3): Publish reports required by HERA to enhance understanding of mortgages, mortgage markets, the GSEs and the nation's housing finance system. | As required by the Act |
|---|------------------------|

**Means & Strategies:**

During 2009, FHFA will continue to provide information to promote an efficient secondary mortgage market. The presentation of accurate and timely information is critical to understanding mortgages, mortgage markets and the Enterprises' risks and activities. FHFA is uniquely positioned to serve as a resource to the public about these issues. As in previous years, FHFA will publish a variety of data and reports throughout the year in order to increase the transparency of mortgage market developments, as well as Enterprise risks and activities.

- Continue to calculate and release a quarterly HPI, which documents changes in house prices for the nation, the states, the nine census regions, and the metropolitan statistical areas (MSAs), and post this information on FHFA's web site.
- Develop a median HPI and continue to publish a monthly HPI and a quarterly purchase-only HPI. These products enhance the industry's understanding of changes in house prices and help draw inferences on many aspects of the housing finance market and the safety and soundness of the Enterprises.
- Issue the annual Report to Congress that summarizes the results and conclusions of FHFA's annual examinations of the 14 housing-related GSEs, including their safety and soundness condition and performance in meeting affordable housing goals. The report also provides information on the agency's activities, and includes a comprehensive set of supporting historical data on Enterprise-related activities.
- Publish during the year a series of reports required by the HERA that emphasize various aspects of the GSEs, their risks and their role in the secondary mortgage market, including a study on guarantee fees, underserved markets, housing goals, securitization of mortgages purchased from FHLBank members, compensation of FHLBank Directors, and an evaluation of default risk of Fannie Mae and Freddie Mac, among others.

- Publish a number of reports, research papers, working papers and mortgage market notes aimed at developing an improved public understanding of mortgages, mortgage markets and the nation's housing financial system, covering topics related to the economic environment, measuring risks and supervisory policies. Generally, these reports are created in support of FHFA's supervision of the 14 housing-related GSEs.
- Continue to research issues related to FHFA's HPI, loan purchase goals and analysis of the Enterprises' business models. FHFA may also host a symposium on research related to housing, mortgage markets and the Enterprises.

**Performance Goal 2.4:**

Communicate effectively with all stakeholders on the 14 housing related GSE risks and activities, mortgage markets, the nation's housing finance system and regulatory issues.

<b><u>Measure</u></b>	<b><u>Target</u></b>
2.4(1): Percentage of survey respondents visiting PART FHFA's website who find it a useful resource.	Establish baseline.
2.4(2): Respond to all public inquiries.	Within 30 business days
2.4(3): Meet with industry stakeholders to address current topics and receive input from the industry. Identify issues and potential solutions to address these issues.	Quarterly
2.4(4): Respond to all Congressional inquiries and identify any systemic trends for appropriate action.	Within 10 business days
2.4(5) Implement Ombudsman program	March 31, 2009
2.4(6) Work with Congress and Administration to develop post-conservatorship Enterprise model	Sept 30, 2009

**Means & Strategies:**

Communication with stakeholders is key to FHFA's support of an efficient secondary mortgage market. Through its web site, FHFA provides the public with information on the 14 housing related GSEs, the risks they face, the



economic environment in which they operate, and policy issues facing FHFA. The FHFA web site features detailed information about the FHFA HPI, including an HPI calculator, speeches and testimony, policies and guidelines, capital classifications, research and working papers, and news releases that apply to the 14 housing related GSEs.

- Develop a new website to combine information from OFHEO, FHFB, and the HUD GSE Mission Office. FHFA will continue to conduct a user survey in order to ensure that its new web site is user-friendly and information is accessible and will consider comments to make further improvements.
- Continue to include a comprehensive range of FHFA products on its website to ensure that members of the public find it a valuable resource.
- Continue its outreach and educational efforts to the industry and stakeholders by holding meetings with industry stakeholders, Congress and the news media on mortgage market developments and the policy positions and activities of the agency to ensure that stakeholders develop an improved understanding of the financial condition of the Enterprises, as well as the agency's operations, proposals, and regulatory activities.
- Continue to send FHFA representatives to speak at industry forums and participate in meetings with regulatory groups, interagency groups and industry organizations, providing information about the secondary mortgage market, the 14 housing related GSEs, and FHFA's regulatory role.
- Continue to participate in panel discussions that enhance the awareness and understanding of developments in the nation's housing finance system, and facilitates the sharing of information that identifies issues and trends important to the industry as a whole.
- Continue to respond to inquiries from the public in a consistent, courteous, accurate, and timely manner and will seek to ensure appropriate transparency in its responses to public inquiries regarding the Enterprises, as well as to those inquiries that relate to FHFA's operations, its proposals and regulatory activities.
- Continue to have ongoing interaction with Members of Congress, congressional staff, and with staff and policy officials at federal agencies, with respect to implementing the new authorities to ensure stronger regulation of the Enterprises.
- Work with the Congress to provide information on the implementation of HERA and other developments relating to the 14 housing related GSEs and the markets in which they operate.

- Continue to conduct public outreach and public speaking with relevant groups in order to inform and educate them. FHFA staff will meet with industry stakeholders to receive and discuss input from the industry.
- Keep Congress informed of conservatorship and future alternative structures.

**Performance Goal 2.5:**

Cooperate with other Federal agencies on mortgage markets and the nation’s housing finance system and regulatory issues.

<b><u>Measure</u></b>	<b><u>Target</u></b>
2.5(1): Respond to requests from other Federal agencies for information about housing finance markets and the Enterprises.	Within 30 days
2.5(2): Meet with other Federal financial regulators to discuss issues related to the regulation of the 14 housing-related GSEs and the housing finance system.	At least quarterly
2.5(3) Work with other Oversight Board Members to ensure Emergency Economic Stabilization Act (EESA) compliance	Meet at least quarterly

**Means & Strategies**

FHFA will work with other Federal agencies and stakeholders to share information and discuss issues of common interest to promote an efficient secondary mortgage market. FHFA promotes regular communication among regulators and will work with them as they develop regulatory standards that are aimed at improving financial safety and soundness. FHFA considers coordination with other Federal agencies a critical link in meeting FHFA’s safety and soundness mission, promoting affordable housing, and ensuring an efficient secondary mortgage market. During FY 2009, FHFA will:

- Maintain a dialogue with the Federal Reserve Board, the Department of Housing and Urban Development, the Department of Treasury, the Securities and Exchange Commission and other appropriate agencies about broad public policy issues affecting housing finance markets and the Enterprises, such as foreclosure prevention and mortgage fraud.

- Keep other financial regulators informed about FHA regulatory activities, building upon the Memorandums of Understanding that FHFA has established with other regulators in recent years. This includes providing information about FHFA's regulatory activities, soliciting their views about issues related to the housing GSEs, and evaluating this information when making decisions consistent with its mission.
- Enter formal agreements with other financial regulators to share resources, information, ideas and draft documents while maintaining the integrity, examiner privilege and confidentiality of the information.
- Contribute to Federal efforts to address policy issues such as systemic risk, adequate financial disclosure, consistent supervisory standards, and the development of capital requirements for other Federally-regulated financial institutions, and the security and emergency preparedness of the nation's financial system.
- Continue to participate in a number of interagency task forces, forums and groups such as the Interagency Task Force on Nondiscrimination in Lending, the Bank Fraud Working Group, the Mortgage Fraud Working Group, the Interagency Task Force on National Flood Insurance, the Federal Financial Regulators Results Act Working Group, the Financial and Banking Information Infrastructure Committee, and the Federal Financial Institutions Examination Council (FFIEC) Information Systems Subcommittee. FHFA will also continue to meet informally with members of these groups and others, such as the Council of State Bank Supervisors, to keep informed of issues and topics of note.

### **Strategic Goal 3**

**Through Conservatorship, FHFA will preserve and conserve the assets and property of Fannie Mae and Freddie Mac (the Enterprises) and enhance their ability to fulfill their mission.**

FHFA's decision to place Fannie Mae and Freddie Mac into conservatorship represents a serious challenge to the agency going forward. The purpose of the conservatorship is to stabilize the Enterprises and restore their safety and soundness while continuing to fulfill their mission of providing liquidity to the mortgage market. While FHFA has taken action to ensure that both Fannie Mae and Freddie Mac continue to provide stability, liquidity and affordability to the housing market, the agency will be challenged in this difficult economic situation to balance this critical mission with the Enterprises' safety and soundness. The agency expects the conservatorship to continue for at least one year. The FHFA Director appointed new CEOs for each Enterprise immediately after announcing the conservatorship and instructed them to examine their underwriting standards

and pricing. FHFA will continue to develop the many regulations needed to implement HERA and ensure the Enterprises safety and soundness, including revised minimum capital standards, prudential safety and soundness standards and portfolio limits. FHFA has also actively challenged Fannie Mae and Freddie Mac to be more creative on foreclosure prevention, including loan modifications, in order to help distressed borrowers. All of these steps begin to address the serious market issues currently being experienced. FHFA will need to continue to closely monitor the market situation, guide the Enterprises' activities and decisions and improve their operations to ensure they are safe and sound and yet continue to provide liquidity and stability to the housing market.

**Performance Goal 3.1**

Preserve and conserve each Enterprise's assets and property.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
3.1(1)	Financial condition of each Enterprise remains liquid and they maintain positive GAAP net worth including Senior Preferred Stock.	100%

**Performance Goal 3.2**

Continue to delegate appropriate authorities to each Enterprise's management to move forward with the business operations.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
3.2(1)	Each Enterprise has leadership appointed by FHFA to carry out ongoing business.	100%
3.2(2)	Establish new boards of directors at each Enterprise.	100%

**Performance Goal 3.3**

Work with Enterprises to lessen problems in mortgage markets by reducing preventable foreclosures.

<u>Measure</u>	<u>Target</u>
3.3(1) The Enterprises increase the number of loan modifications by 25 percent over the 2008 amount and reduce the redefault rate by 25%.	25% for 2009 and maintain level for 2010 and 2011

### **Means & Strategies**

On September 6, 2008, due to safety and soundness concerns and market conditions that affected the Enterprises, FHFA placed both Fannie Mae and Freddie Mac under the conservatorship to ensure that they could continue to fulfill their missions. Conservatorship is a statutory process designed to stabilize a troubled institution with the objective of maintaining normal business operations and restoring its safety and soundness. Under conservatorship, FHFA is responsible for the overall management of the institution and has delegated operational and other duties to the Enterprises' directors and officers. All existing contracts remain in effect and both Enterprises continue their normal operations, under the oversight of the conservator.

The agency took this significant step due to deteriorating market conditions that adversely affected both Fannie Mae and Freddie Mac, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. Both Enterprises had been making progress on improving their accounting, internal controls and risk management, but market conditions overwhelmed that progress. Specifically, FHFA was concerned about the inability of the Enterprises to raise capital or issue debt according to normal practices and at reasonable prices which was affecting their ability to fulfill their critical mission to support the nation's residential mortgage market. The Enterprises' capital was threatened by increasing credit losses in their guaranteed MBS and retained mortgage portfolios. During Conservatorship FHFA will:

- Continue to work with each company to ensure the appropriate use of the Senior Preferred Stock Facility, which allows each company to increase its portfolio of mortgages up to \$850 billion over 15 months in order to support the troubled mortgage market,
- Continue to monitor capital levels, but the regulatory capital requirements will not be binding during the conservatorship.
- Continue to ensure that the new CEOs for both GSEs and non-executive chairmen for the new Boards of Directors are provided appropriate levels of support from FHFA examiners through the newly formed office of Conservatorship Operations

- Direct the Enterprises to become much more aggressive and innovative in their approaches to loan modification activities to reduce preventable foreclosures.
- Ensure that all existing contracts remain in effect and both Enterprises continue to run their normal operations, but under the oversight of the conservator
- Continue to closely monitor developments in the markets and work closely with the federal banking regulators to work to stabilize each company.

## **Resource Management Strategy:**

### **Manage effectively FHFA's human capital and resources to support our mission.**

The creation of FHFA and the merging of staff and resources of OFHEO, FHFB and the HUD GSE Oversight Team under a new, unified mission regulating the 14 housing-related GSEs will continue to be an immense challenge during FY2009. HERA required the transfer of employees to the new agency and the abolishment of OFHEO and FHFB by July 30, 2009. However, on October 27, 2008, less than 90 days since HERA's enactment, the administrative work to officially transfer all employees to the new Agency was completed.

In view of the tremendous amount of supervisory activity taking place given market conditions, and the appointment of the two conservatorships in September, 2008, the accomplishment of this task in less than three months is especially noteworthy. Because of the important challenges facing Fannie Mae and Freddie Mac, and the distressing conditions in the mortgage market, getting FHFA established and employees transferred as quickly as possible was a critical priority. FHFA, as a new, stronger regulator, will help restore confidence and ensure ongoing liquidity in the mortgage market.

While the challenges in merging the regulatory mission are large, FHFA also faces administrative and cultural challenges in merging information technologies and systems, financial and human resources functions, and agency cultures to meet the needs of the new agency. The employees of FHFA must be united under one vision and mission, starting with the development of an agency strategic plan, which FHFA has begun to draft and expects to complete in FY2009. Realistically, to complete the transition from OFHEO and FHFB to a merged FHFA will take serious effort throughout the next year, but important progress has already been made in connecting systems, developing unified policies, , and issuing regulations and guidance related to FHFA's mission.

FHFA's success in achieving its strategic goals depends on the effective management of resources and seamless financial, administrative and information technology support functions. FHFA's management philosophy reflects the government-wide management goals outlined in the President's Management Agenda. The size of the budget in relation to the mission requires FHFA to use limited resources efficiently and ensures that resources are tied directly to the achievement of the mission. As a small but growing agency, FHFA relies on staff and management to accomplish its goals through cross-organizational teams that are results-oriented. FHFA managers use timely information for decision-making that links strategic planning, program performance, budget, and operational strategies. FHFA invests in the talents of its staff, relies on effective information technology solutions, and uses appropriate competitive sourcing to provide efficient and cost-effective services.

**Performance Goal 4.1:**

Maintain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the goals of the agency.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
4.1(1)	Establish human capital policies and programs for FHFA.	By the end of the fiscal year
4.1(2)	Develop the Human Capital Plan for FHFA to include a Workforce Plan and Succession Plan for Leadership.	By the end of the fiscal year
4.1(3)	Percentage of vacancies filled within OPM’s 45-day time-to-hire standard.	72%
4.1(4)	Maintain a diverse workforce by increasing the number of minority, women and disabled applicants for open vacancy announcements.	Improved over 2008

**Means & Strategies**

FHFA’s workforce is its most valuable resource. FHFA conducts outreach to hire a diverse staff with cutting-edge professional skills and a breadth and depth of knowledge in their fields. Their technical competence, skills, experience and ability to work in a team environment are crucial to ensuring the successful achievement of FHFA’s goals.

To ensure FHFA effectively manages its most valuable resources, FHFA has adopted the President’s Management Agenda on Human Capital and in 2007 published its Human Capital Strategic Plan. The Plan is updated annually and will be supplemented with the FHFA Workforce and Succession Plan. Together, these strategic plans address organizational alignment, workforce planning, leadership knowledge, results-oriented performance culture, talent management and accountability in the context of FHFA’s workforce and operating environment.

FHFA is committed to attracting and retaining a highly diverse workforce. In 2009, FHFA will continue to advertise its vacant jobs in print and electronic publications frequented by relevant professionals and attend minority job fairs, such as those hosted by Historically Black Colleges and Universities and professional conventions of under-served groups, such as the National Society for Hispanic Professionals. Specifically, the FHFA will:



- Continue to review its supervisory program and organizational alignments and make adjustments to improve effectiveness. FHFA continues to effectively align staff by utilizing their competencies and skills where they are most needed.
- Continue to explore opportunities for competitive sourcing by reviewing whether commercial activities performed by the government can be more efficiently obtained by private sector service providers or Federal employees.
- Concentrate on the retention of skilled, knowledgeable employees. This is a crucial step as FHFA competes for talent with high paying private and Federal sector banking industry labor markets. Recruiting, developing, and providing quality of work life flexibilities as well as enhanced employee benefits programs are investments that FHFA makes to attract and retain talent. The degree that these initiatives work and the return on investment are important to FHFA.
- Continue the progress made in narrowing technical and leadership competency gaps. In FY 2009 FHFA will focus on ensuring leadership bench strength and the continuity of critical knowledge. As experienced employees retire or move on to other jobs, there must be a cadre of talented staff ready to step in and continue FHFA's work. Being one employee deep in mission critical occupations or losing institutional knowledge places FHFA at risk of not meeting key strategic goals. In FY 2009 FHFA will implement a Workforce and Succession Plan that addresses continuity of leadership and knowledge.
- Continue to take steps to make improvements at FHFA to address employee survey results. FHFA first surveyed its staff in 2007 and continues to review its annual results in order to find ways to implement policies and programs that will lead to improvements. The employee survey measures employees' perceptions of conditions that characterize successful organizations at FHFA, such as leadership quality, performance culture and talent capacity.
- Ensure that employees' performance results support FHFA's mission, in FY 2009, FHFA employees will continue to strive so that all employees have final performance ratings on their results job elements that are fully successful or better. Performance results are linked to FHFA strategic goals and therefore monitoring performance is critical to ensuring FHFA's mission is being supported. If results are not attained, FHFA will take appropriate performance-based action.

- Conduct an external review of other federal regulatory agencies' compensation and benefits to ensure the agency meets its statutory requirement to maintain comparability.

**Performance Goal 4.2:**

Provide effective information resource management services to FHFA managers and staff to support the goals of the agency.

<b><u>Measure</u></b>	<b><u>Target</u></b>
4.2(1): Increase compliance with OMB Enterprise Architecture Assessment Framework	Maintain an Enterprise Architecture score of 4 in the Completion Section and achieve a score of 4 in the "Use" and the "Results" Sections
4.2(2) Percentage of help desk requests during the business day that are responded to within 4 hours.	95%
4.2(3): Percent of time FHFA's IT systems are available for use by the FHFA staff.	98%
4.2(4): Maintain or complete required Certification and Accreditation of FHFA major information systems in production.	100%
4.2(5) Percentage of security incidents that are reported within the timeframe defined by the associated Federal Agency Incident Category as defined in FHFA Guideline 114, Information Systems Security Incident Response and Breach Notification Policy.	100%

**Means & Strategies**

FHFA's supervision of the 14 housing related GSEs is highly dependent upon the strategic use of technology. The use of information technology (IT) is an integral part of achieving FHFA's mission and of the GSEs' operations that the agency regulates. Without technology comparable to that used by other organizations with similar risk assessment and analytical requirements, FHFA would not be able to provide independent analysis of safety and soundness issues to accomplish its mission. FHFA issued a significantly revised Information

Technology Management Strategic Plan that outlines the goals and objectives needed to support the mission and functions of FHFA, and carries out the E-Gov goals of the President's Management Agenda. Each year, FHFA reviews the plan to ensure that the annual component of the plan ties to the annual performance budget and positions the agency in achieving its long term goals.

- Continue to use the IT Investment Review Board (IRB) to make effective IT decisions. The IRB review ensures a cost-effective allocation of resources for IT capital investments that are consistent with FHFA's Strategic Plan.
- Continue to implement the agency's Enterprise Architecture plan. The Enterprise Architecture plan will ensure that the agency makes consistent choices in types of technology, fosters best use of IT resources, and reduces redundancy of IT systems.
- Ensure that all new systems undergo Certification and Accreditation process in order to establish authority to operate, and will also update the Certification and Accreditation of existing systems.
- Continue to support the development and enhancement of the automated supervisory tool that facilitates the examination process and coordinates activities throughout the Office of Supervision, promoting information sharing and documenting the risk rating process.
- Continue to support and maintain the risk-based capital stress test application, a large and complex computer model that simulates the cash flows of the assets and obligations of each Enterprise under stressful conditions. If revisions are made to the capital regulation, conforming changes will be made to the software model.
- Continue to support and maintain data sets and advanced technology needed to conduct research and financial analysis, including the asset-liability management model.
- Ensure maximum availability of FHFA information resources, and continue to enhance the security, reliability and capacity of FHFA's IT infrastructure, consistent with the Federal Information Security Management Act (FISMA), including annual testing.

**Performance Goal 4.3:**

Maintain a strong internal control and risk management program.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
4.3(1):	Percent of FHFA's external audits or external reviews with an unqualified opinion and no material weaknesses, no unacceptable risks, or no findings on Human Capital audits.	100%
4.3(2)	Executive Committee on Internal Controls (ECIC) conducts review of FHFA's internal controls consistent with OMB guidance.	By July 29, 2009
4.3(3)	Establish and support FHFA Inspector General (IG).	By July 29, 2009

**Means & Strategies**

To ensure that its resources are managed effectively and efficiently, FHFA will continue to expand its use of financial and performance information in managing program operations, integrating its budget and performance development, and making program improvements. FHFA must continue to maintain a strong internal control and risk management program. This includes financial management, information security and other management and operating processes. These efforts continue to support the President's Management Agenda initiative of improved financial performance.

- Continue to have an independent audit of its financial statements for FY2009, and will revise its policies and procedures as necessary to ensure that the agency's resources are used to achieve its strategic and performance goals.
- Continue to have an external review of its internal controls over its performance measures and will revise any policies and procedures as necessary to ensure that the agency's performance measures have sufficient verification and validation that they can be used by management for decision making.
- Continue to have an independent Federal Information Security Management Act (FISMA) review of its information security program during FY2009. The FHFA information security program provides for the

protection of the agency's information assets, including the hardware and software used to create and maintain the information.

- Continue its program of information security monitoring and staff training, and will update risk assessments of its systems to ensure that the associated risks have been mitigated. Information security at FHFA is a shared responsibility among the Chief Information Security Officer, information technology professionals and the entire FHFA staff.
- Establish, as required by HERA, an Office of the Inspector General providing the support required for this office to conduct internal reviews of agency activities. This includes providing the necessary budgetary resources to ensure the full functionality.
- Oversee implementation of A-123 requirements on internal controls to be executed by FHFA's Executive Committee on Internal Controls.

**Performance Goal 4.4:**

Ensure the continuity of FHFA's business functions.

<b><u>Measure</u></b>	<b><u>Target</u></b>
4.4(1): Percentage of continuity of operations testing and after action reviews completed as outlined by Federal Continuity Directive 1 and 2.	100%

**Means & Strategies**

FHFA is committed to the good business practice of business continuity planning, ensuring that the agency can continue to perform its essential functions during an unplanned event that would prevent normal business operations. FHFA has already completed a major revision and updated its continuity of operations plan (COOP) plan in FY 2007 which identifies essential functions and alternate plans in case of an emergency, including alternative work sites. The plan follows Federal Preparedness Circular 65, which provides guidance to Federal agencies regarding business continuity planning and outlines requirements for agency plans. In addition, FHFA will:

- Continue to update the COOP.

- Conduct a regular schedule of testing to assess and validate the COOP and proactively identify any gaps or operational problem areas. Testing will include alert and notification procedures, recovery plans for vital systems, and data, infrastructure systems such as computer systems and after-action reviews, to ensure that lessons learned from testing are incorporated into the plan.

**Performance Goal 4.5**

FHFA’s internal operations effectively support the mission and goals of the agency.

	<b><u>Measure</u></b>	<b><u>Target</u></b>
4.5(1)	The composite score from an annual employee customer survey that asks how well internal services and processes help employees get their job done.	Improved over 2008
4.5(2)	Get to “green” on the President’s Management Agenda (PMA) initiatives status scores.	Achieve a status score of “green” on 4 of 5 PMA initiatives
4.5(3)	FHFA net costs per value of the 14 <b>PART</b> Housing GSE’s total book of business	.002 percent

**Means & Strategies:**

FHFA is committed to managing its internal functions and services in the most efficient way possible, while facilitating the accomplishment of the agency’s strategic and performance goals. FHFA’s management philosophy reflects the government-wide management goals outlined in the PMA and FHFA has begun to implement plans to reach the standards outlined in the five major PMA initiatives through the following:

- Continue to administer an internal customer service survey to assess how well internal services provided to agency employees serve their needs in accomplishing their work. The survey was first carried out in 2008 and FHFA will work continually to make improvements. The survey will be repeated annually to assess the impact of those improvements and may focus on one particular service or area as needed.

- Complete the implementation of a formal plan to meet the standards of the five initiatives of the President’s Management Agenda that began last year.
- Follow the plan for the Expanded Electronic Government Initiative and Performance Improvement Initiative to meet the criteria for a “green” score.
- Maintain the FHFA’s “green” in two other initiatives, Improved Financial Performance and Strategic Management of Human Capital.
- Continue to work on the Competitive Sourcing Initiative to make progress throughout the year as well as the all the PMA initiatives to maintain “green” status once it has been achieved.
- Despite extra costs from integration of two agencies, conservatorship and the Working Capital Fund, FHFA’s net costs are a small fraction of the size of the entities that it regulates—just a small fraction of a basis point of their total book of business. For the second year, FHFA will use this as a measure of its efficiency, setting a target lower than the prior year. While FHFA’s costs continue to grow, they will continue to be a small fraction of the regulated entities’ business and are unlikely to outstrip the growth in the mortgage market. The 14 housing GSEs’ book of business—the mortgages they hold in portfolio, their mortgage backed securities outstanding, and their advances and other investments—is a reflection of their impact in fulfilling their mission—to provide stability, liquidity and affordability to the mortgage market. By fulfilling their mission, they lower the costs of mortgages.

## **Development of a Strategic Plan for the Federal Housing Finance Agency (FHFA)**

Under the normal schedule outlined by the Government Performance and Results Act, in FY2009 OFHEO would have revised and updated its strategic plan to provide direction and focus in achieving its mission. The plan was most recently updated in 2006. Instead, the first strategic plan for the Federal Housing Finance Agency will be developed. This plan will be developed in a collaborative process that focuses on the environmental and operational factors that may have a significant impact on the Enterprises and Federal Home Loan Banks over the next five years. The development process will include input and feedback from stakeholders.

## **Program Evaluation**

In FY 2008, OFHEO began a program evaluation of the agency's effectiveness in achieving its mission, focusing on a methodology that was of sufficient scope, quality, and independence as outlined in the PART criteria. In addition, OFHEO worked to expand the implementation of its automated supervisory tool (XWorks) to improve the planning, organization, management, and documentation of its enforcement and supervision activities. OFHEO also continued to improve the examination and supervision program and supervision policy, guidelines, procedures, supervisory handbook development, and oversight.

In implementing an effective program evaluation, OFHEO worked with external agencies to improve its quality assurance function. As agencies sharing a similar regulatory function, the FDIC and the OCC provided feedback regarding OFHEO's quality assurance function. OFHEO received extensive information regarding the quality assurance functions of the FDIC, Federal Reserve, OCC, and FHFB. Following a comprehensive review of all of the data, FHFA will develop a summary of actions that incorporates the best practices of FHFA's peer agencies. FHFA will also develop a Proud to Be plan that outlines milestones to implement those best practices. This approach will allow FHFA to take full advantage of the external reviews and feedback received from each of the four regulators. Based upon FHFA's review of the data, it will develop a summary of actions that incorporates the best practices from each agency and identifies ways to enhance the quality assurance function of FHFA. The program evaluation was designed to provide for a smooth transition for the quality assurance function and the results will be used to continue improvement of FHFA's supervision and oversight program. The results will establish a baseline in FY 2009.



## **Performance Assessment Rating Tool (PART)**

FHFA will continue to actively participate in the PART process. The data below represents information for OFHEO and FHFB's PART activities prior to the merger of the two agencies.

OFHEO was reviewed by its management and OMB using the Performance Assessment Rating Tool (PART) in FY 2006 and received a rating of "Adequate." FHFA's PART improvement plan included using the performance measures that capture the Enterprises' conditions. These measures have been improved for the FY2009 plan and FHFA intends to continue their use in future years with modifications for FHFB inclusion. The improvement plan also called for Congress to pass legislation to enhance OFHEO's authorities and powers, which was accomplished in 2008. OFHEO's full PART assessment can be found at [www.results.gov](http://www.results.gov). In this performance budget, OFHEO is using the performance measures described in the PART evaluation, as updated.

The Federal Housing Finance Board was assessed by OMB in 2007 and received a rating of "Results Not Demonstrated." This was not an accurate reflection of their program's success, as FHFB provided limited assistance to OMB based on a legal opinion. As stated in the legal opinion, the Finance Board was unable to develop quantifiable performance measures that OMB would consider meaningful without revealing confidential bank examination information. However, moving forward, FHFA will fully participate in the PART evaluation.

## **Allocating Resources to Meet FHFA Goals**

### **OFHEO and FHFB 2007-2008 Resource Allocation Estimates for Supervision and Oversight of the Enterprises<sup>3</sup>**

#### **OFHEO 2007 - 2008 Dollars in Millions**

	Strategic Goal 1		Strategic Goal 2		Strategic Goal 3		Total
Year	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
2007	\$63.5	93.9	\$1.8	2.7	\$2.3	3.4	\$67.7
2008	\$58.3	88.3	\$2.1	3.2	\$5.6	8.5	\$66.0

#### **FHFB 2007 - 2008 Dollars in Millions**

	Strategic Goal 1		Strategic Goal 2		Total
Year	Dollars	Percent	Dollars	Percent	Dollars
2007	\$26.8	80.2%	\$6.6	19.8%	\$33.4
2008	\$29.6	81.3%	\$6.8	18.7%	\$36.4

#### **OFHEO 2007 - 2008 FTE**

	Strategic Goal 1		Strategic Goal 2		Strategic Goal 3		Total
Year	FTE	Percent	FTE	Percent	FTE	Percent	FTE
2007	210	90.9	9	3.9	12	5.2	231
2008	231	88.1	7	2.7	24	9.2	262

#### **FHFB 2007 - 2008 FTE**

	Strategic Goal 2		Strategic Goal 4		Total
Year	FTE	Percent	FTE	Percent	FTE
2007	110.4	n/a	27.1	n/a	137.5
2008	118.8	n/a	26.7	n/a	145.5

<sup>3</sup> These are estimates for the fiscal years prior to enactment of the Housing and Economic Recovery Act of 2008.

<b>OFHEO's Performance Information</b>					
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Strategic Goal 1</b>	<b>Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized, and comply with other legal requirements.</b>				
<i>Perf. Goal 1.1</i>	<i>The Enterprises comply with safety and soundness standards.</i>				
<b>Actual Performance</b>	Both Enterprises met safety and soundness standards, however, OFHEO found inadequate controls and improper accounting at Fannie Mae and took remedial action. OFHEO continued to monitor both Enterprises' progress in completing remedial action to address special examination findings.	Both Enterprises continue to pose supervisory concern including internal controls and accounting problems. Both Enterprises have remedial plans in place to address special examination findings and OFHEO continues to identify other issues requiring attention. Although both Enterprises are responding to OFHEO's concerns they have considerable work to do to correct their accounting and internal controls problems.	Both Enterprises continued to pose supervisory concern including internal controls and accounting problems. Both Enterprises continued to make improvements and OFHEO continued to identify other issues requiring attention. Although both Enterprises continued to respond to OFHEO's concerns they had considerable work to do to correct their accounting and internal controls problems		See FHFA Chart under Strategic Goal 1  New Goal to reflect merger of OFHEO and FHFB Regulatory Responsibilities

<i>Perf. Goal 1.2</i>	<i>The Enterprises are adequately capitalized.</i>				
	<u>2005</u>	<u>2006</u>	2007	<u>2008</u>	2009
<i>Actual Performance</i>	Freddie Mac: classified as adequately capitalized each quarter. Fannie Mae: classified as adequately capitalized for three quarters and classified as significantly undercapitalized for the quarter ending December 31, 2004.	Both Enterprises were classified as adequately capitalized each quarter, and were required to maintain a capital surplus 30% above the minimum capital requirement.	Freddie Mac: classified as adequately capitalized each quarter. Fannie Mae: classified as adequately capitalized each quarter. OFHEO completed or met milestones on the six projects that it had planned for the year to improve the measures of capital adequacy and analysis of Enterprise capital.		See FHFA Chart under Strategic Goal 1  New Goal to reflect merger of OFHEO and FHFB Regulatory Responsibilities

	2005	2006	2007	2008	2009
<i>Perf. Goal 1.3</i>	<i>The Enterprises comply with applicable laws, regulations and directives, including executive compensation, corporate responsibility and disclosure.</i>				
<i>Actual Performance</i>	Reviewed Enterprise compliance with applicable laws, regulations and directives, including corporate responsibility and disclosure requirements. Each Enterprise responded appropriately to issues identified by OFHEO	. Issued corporate governance regulation and mortgage fraud regulation. Issued examination guidance and a Director's Advisory. Reviewed Enterprise compliance with applicable laws, regulations and directives, including corporate responsibility, executive compensation and disclosure requirements. Each Enterprise responded appropriately to issues identified by OFHEO	Reviewed Enterprise compliance with applicable laws, regulations and directives, including corporate responsibility, executive compensation and disclosure requirements. Each Enterprise responded appropriately to address issues identified by OFHEO. Monitored each Enterprise's progress in implementing the requirements of consent orders and agreements each Enterprise had entered into with OFHEO. Identified examination findings and conclusions that required resolution by the Enterprises (designated as MRAs) and monitored each Enterprise's progress in implementing the correction.		See FHFA Chart under Strategic Goal 1  New Goal to reflect merger of OFHEO and FHFB Regulatory Responsibilities

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>Perf. Goal 1.4</i>	Strengthen regulatory infrastructure to enhance the supervision of the Enterprises.				
<i>Actual Performance</i>	N/A	N/A	Met quarterly milestones to revise and implement guidances, policies and regulations to enhance the current regulatory infrastructure. Developed a quality assurance function and issued a revised Supervisory Handbook outlining the principles and standards for OFHEO's examination of the Enterprises. Began to develop an Enterprise call report regulation but did not achieve two of the four milestones to complete this project in FY 2007.		See FHFA Chart
<b>Strategic Goal 2</b>	<b>Provide support for statutory reforms to strengthen our regulatory powers.</b>				
<i>Perf. Goal 2.1</i>	<i>Support efforts to strengthen OFHEO's authorities.</i>				
<i>Actual Performance</i>	N/A	N/A	Made legislative recommendations in the 2008 Annual Report to Congress. Responded to all Congressional inquiries within 10 business days	.	Goal Met and Removed
<b>Strategic Goal 3</b>	<b>Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.</b>				

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>Perf. Goal 3.1</i>	<i>Promote an efficient secondary mortgage market by increasing the transparency of mortgage market developments, and Enterprise risks and activities.</i>				
<i>Actual Performance</i>	HPI Report issued quarterly. One research paper published as planned. Annual Report sent to Congress on June 15, 2005. Issued secondary mortgage market report for both 2003 and 2004.	. HPI Report issued quarterly. Annual Report sent to Congress on June 15, 2006. Issued a research paper, a working paper and the Report of the Special Examination of Fannie Mae.	HPI report issued quarterly. Provided additional information in the regular quarterly reports. Annual Report to Congress sent to Congress on April 10, 2007. Report of the Special Examination of Fannie Mae issued in June 2007. Published five working papers and three research papers on OFHEO's website during the year.		See FHFA Chart under Strategic Goal 2  New Goal to reflect merger of OFHEO and FHFB Regulatory Responsibilities
<i>Perf. Goal 3.2</i>	<i>Communicate effectively with all stakeholders on Enterprise risks and activities, mortgage markets, the nation's housing finance system and regulatory issues.</i>				
<i>Actual Performance</i>	Responded to all inquiries from Congress within 14 days and responded to all public inquiries within 21 days.	Responded to all inquiries from Congress within 14 days and all public inquiries within 21 days. Over 93% of respondents indicated they found OFHEO's web site a valuable resource.	More than 93% of respondents indicated they found OFHEO's web site a valuable resource. OFHEO responded to all public inquiries within 15 days. Director Lockhart and senior OFHEO staff met regularly with trade associations, industry representatives and housing advocacy groups		See FHFA Chart under Strategic Goal 2  New Goal to reflect merger of OFHEO and FHFB Regulatory Responsibilities

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Perf. Goal 3.3</b>	<i>Cooperate with other Federal financial agencies on mortgage markets and the nation's housing finance system and regulatory issues.</i>				
<b>Actual Performance</b>	Worked with other Federal agencies on various issues, participated in interagency task forces and responded to Federal agencies' requests for information within the timeframe.	Worked with other Federal agencies on various issues, participated in interagency task forces and responded to Federal agencies' requests for information within the timeframe.	Responded to all requests within the time frame. Director Lockhart and/or other senior members of OFHEO's management met with HUD monthly on common issues. Entered into Memorandum of Understanding with HUD regarding sharing data, report and other information relating to Fannie Mae and Freddie Mac		See FHFA Chart under Strategic Goal 2  New Goal to reflect merger of OFHEO and FHFB Regulatory Responsibilities
<b>Resource Mgmt Strategy</b>	<b><i>Manage effectively OFHEO's human capital and other resources to support our mission.</i></b>				
<b>Perf. Goal 4.1</b>	<i>Maintain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the goals of the agency.</i>				
<b>Actual Performance</b>	Completed annual revision of individual development plans for all staff members. Training and development ongoing.	Completed annual revision of individual development plans for all staff members. Training and development ongoing.	Conducted an agency-wide employee survey in July 2007. Completed an assessment of competency gaps. Revised the performance management system to incorporate individual work plans tied to the agency's goals and implemented an automated tool for employee and manager use.		See New Combined Resource Management Strategy in FHFA Chart



	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>Perf. Goal 4.2</i>	<i>Provide effective information resource management services to OFHEO managers and staff to support the goals of the agency.</i>				
<i>Actual Performance</i>	Implemented all three projects outlined in the FY 2005 Component of 5-Year IT Strategic Plan	Successfully implemented four of six projects outlined in the FY 2006 component of the five-year IT Strategic Plan. Substantially completed the remaining two projects and expect to have them completed in the first and second quarter of 2007.	Published the five-year IT Strategic Plan on OFHEO's web site in June 2007. Completed most milestones for four major projects in the FY 2007 plan. System availability exceeded 97% during the year. Completed Certification and Accreditation for six major systems		See New Combined Resource Management Strategy in FHFA Chart
<i>Perf. Goal 4.3</i>	<i>Maintain a strong internal control and risk management program.</i>				
<i>Actual Performance</i>	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. No material weaknesses were reported during the independent review of the OFHEO information security program. The HUD IG found OFHEO's allocation of resources, staffing and compensation was comparable to other regulators.	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. No material weaknesses were reported during the independent review of the OFHEO information security program.	Received unqualified audit opinion on FY 2007 financial statements, internal controls and compliance with laws and regulations from an independent external auditor. No material weaknesses were reported during the independent review of the OFHEO information security program.		See New Combined Resource Management Strategy in FHFA Chart

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>Perf. Goal 4.4</i>	<i>Ensure the continuity of OFHEO's business functions</i>				
<i>Actual Performance</i>	N/A	N/A	Issued a revised OFHEO's Continuity of Operations Plan consistent with federal guidance.		See New Combined Resource Management Strategy in FHFA Chart
<i>Perf. Goal 4.5</i>	<i>OFHEO's internal operations effectively support the mission and goals of the agency.</i>				
<i>Actual Performance</i>	N/A	N/A	New performance goal		See New Combined Resource Management Strategy in FHFA Chart

<b>FHFB Performance Information</b>					
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>STRATEGIC GOAL 2</b>	<b>FEDERAL HOME LOAN BANK SUPERVISION</b>				
<b>Perf. Goal 2.1</b>	<b>The FHLBanks effectively identify and manage risk and address principal safety and soundness examination findings to the satisfaction of the FHFB prior to the next examination</b>				
<i>Actual Performance</i>	The Finance Board completed on-site safety and soundness examinations of the twelve FHLBanks and the Office of Finance within the expectations of agency management.	The Finance Board completed on-site safety and soundness examinations at all 12 FHLBanks and the Office of Finance. At the end of each examination, a “conclusion” was reached for each FHLBank based upon the level of credit, market, and operational risk undertaken; the adequacy of its risk management practices; its financial condition and operating performance; the adequacy of its capitalization; the quality of its corporate governance; and administration of its affordable housing or community investment program.	The Finance Board completed on-site safety and soundness examinations at all 12 FHLBanks and the Office of Finance. At the end of each examination, a “conclusion” was reached for each FHLBank based upon the level of credit, market, and operational risk undertaken; the adequacy of its risk management practices; its financial condition and operating performance; the adequacy of its capitalization; the quality of its corporate governance; and administration of its affordable housing or community investment program.	The Finance Board completed on-site safety and soundness examinations at all 12 FHLBanks using a new FHLBank Risk Rating System. Each FHLBank was assigned a rating based on the level of credit, market, and operational risk undertaken, its financial condition and operating performance, the quality of its corporate governance, and the administration of its affordable housing and community investment programs. The Finance Board also completed the on-site safety and soundness examination of the Office of Finance.	The Finance Board completed on-site safety and soundness examinations at all 12 FHLBanks using the FHLBank Risk Rating System. Each FHLBank was assigned a rating based on the level of credit, market, and operational risk undertaken, its financial condition and operating performance, the quality of its corporate governance, and the administration of its affordable housing and community investment programs. The Finance Board also completed the on-site safety and soundness examination of the Office of Finance.

<b>Perf. Goal 2.2</b>	<b>The FHLBanks maintain adequate capital and internal controls.</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Actual Performance</b>	As of September 30, 2004, nine of FHLBanks had implemented their capital structure plans mandated by Section 6 of the FHLBank Act and agency regulations. Prior to that, the agency approved the market risk models or cash-flow models and risk assessment and control procedures of these institutions and of one other FHLBank that had not implemented its capital structure plan. The Finance Board assessed the continuing adequacy of such models and procedures of eight of these ten FHLBanks and expects to conduct assessments of the remaining two FHLBanks by calendar year end 2004. For one of the two remaining FHLBanks that have neither implemented their capital structure plans nor control procedures, the Finance Board assessed their progress in developing these models and procedure. In addition, the Finance Board considered four requests by FHLBanks to amend their capital structure plans.	All FHLBanks exceeded their minimum capital requirements.	All FHLBanks exceeded their minimum capital requirements. The FHLBank of Chicago made significant progress towards implementing its new capital plan. Additionally, the Finance Board approved capital plan amendments submitted by two FHLBanks. One FHLBank amended its plan to clarify existing provisions and to delete certain transaction related provisions. The other FHLBank amended its capital plan to authorize the establishment of an excess stock pool and to issue Class A stock.	By regulation the FHLBanks are required to establish risk-based capital structures that address minimum capital standards and establish the amount of FHLBank stock members must hold. Eleven of the twelve FHLBanks have implemented their Finance Board approved capital structure plans. In addition, the Finance Board approved two capital plan amendments submitted by two FHLBanks.	Each FHLBanks exceeded its minimum regulatory capital requirements. The FHLBank of Chicago has not yet implemented a Gramm-Leach-Bliley compliant capital plan.

	2004	2005	2006	2007	2008
<b>Perf. Goal 2.4</b>	<b>The FHLBanks' combined financial statements comply with applicable laws, rules, and regulations.</b>				
<i>Actual Performance</i>	n/a	n/a	n/a	n/a	New Performance Goal

<b>Perf. Goal 2.3</b>	<b>The FHLBanks correct supervisory or compliance issues within required timeframes.</b>				
	2004	2005	2006	2007	2008
<i>Actual Performance</i>	N/A	In June 2004 and December 2004, the Finance Board entered into written agreements with the boards of directors of two FHLBanks. These agreements addressed certain shortcomings with FHLBank's risk management, corporate governance, and financial condition that were identified through the agency's supervisory program. Both FHLBanks have made progress toward addressing these supervisory concerns, but remain subject to the provisions of the written agreements.	In 2004, the Finance Board entered into written agreements with the boards of directors of two FHLBanks that addressed certain deficiencies with their risk management, corporate governance, and financial condition. The agreement with one FHLBank was amended in October 2005.		The Finance Board began a series of initiatives to obtain information about and to extend guidance to the FHLBanks regarding the effect of the difficulties in the nation's housing markets on the FHLBanks. These initiatives focused on the FHLBanks' collateral, private-label MBS and other mortgage assets.

<b>Perf. Goal 2.5</b>	<b>Strengthen regulatory infrastructure to enhance the supervision of the FHLBanks.</b>				
<i>Actual Performance</i>	n/a	n/a	n/a	n/a	New Performance Goal
<b>Strategic Goal 3</b>	<b>Mission, Affordable Housing Policy and OER</b>				
	2004	2005	2006	2007	2008
<b>Perf. Goal 3.1</b>	<b>The FHLBanks foster the development of affordable owner-occupied and rental housing for eligible very low-, low- and moderate-income households.</b>				
<i>Actual Performance</i>	The Finance Board completed its review of the advance portfolios and the acquired member asset	On March 15, 2005, the Finance Board issued "The Report of the Horizontal Review of the Affordable Housing	The Finance Board completed on-site reviews of the affordable housing programs at all twelve	The Finance Board updated and enhanced its collection of affordable housing program data from the FHLBanks. The	The Finance Board conducted examinations at eleven of the twelve FHLBanks with one deferred in order to focus

	<p>programs and loan portfolios of nine FHLBanks completing the remaining three FHLBanks by year end 2004. The Finance Board also completed its review of the community lending plans of the twelve FHLBanks, as well as the community support statements of 1,923 FHLBank members. The agency restricted FHLBank member access to long-term advances on seven occasions for failure to adhere to agency regulations.</p>	<p>Programs of the FHLBanks. The results from this report were considered in the revisions of the AHP regulation. The Finance Board reviewed the community lending plans for the twelve FHLBanks and reviewed the community support statements of 3,170 FHLBank members.</p>	<p>FHLBanks, assessing the overall effectiveness of their programs, the accuracy of their affordable housing databases, compliance with the Bank Act and applicable regulations.</p>	<p>Finance Board monitored the level of affordable housing awards and reviewed the Advisory Committee reports and analyses of the low- and moderate-income housing and community lending activity of the twelve FHLBanks. The Finance Board conducted eleven out of twelve FHLBank examinations. The examination of one FHLBank was deferred in order to focus examination resources on areas of heightened supervisory concern.</p>	<p>examination resources on areas of heightened supervisory concern.</p>
--	---	--	--	--	--

<b>FHFA Performance Information FY2009</b>	
	<b>2009</b>
<b>Strategic Goal 1</b>	<b>Enhance supervision to ensure that Fannie Mae, Freddie Mac and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized and comply with legal requirements</b>
<i>Perf. Goal 1.1</i>	<i>The Enterprises comply with safety and soundness standards.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.2</i>	<i>The FHLBanks comply with safety and soundness standards.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.3</i>	<i>Fannie Mae and Freddie Mac are adequately capitalized.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.4</i>	<i>The FHLBanks are adequately capitalized.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.5</i>	<i>Fannie Mae and Freddie Mac comply<sup>4</sup> with applicable laws, regulations, directives and agreements, including executive compensation, corporate responsibility and disclosure.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.6</i>	<i>The FHLBanks comply with applicable laws regulations, directives and agreements, including executive compensation, corporate responsibility and disclosure.</i>

---

4

<b>2009</b>	
<i>Actual Performance</i>	
<i>Perf. Goal 1.7</i>	<i>Implement the Housing and Recovery Act (HERA) and strengthen regulatory infrastructure to enhance the supervision of Fannie Mae and Freddie Mac.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.8</i>	<i>Implement HERA and strengthen regulatory infrastructure to enhance the supervision of the FHLBanks.</i>
<i>Actual Performance</i>	
<i>Perf. Goal 1.9</i>	<i>The FHLBanks individual and combined financial statements comply with applicable laws, rules, and regulations.</i>
<i>Actual Performance</i>	
<b>Strategic Goal 2</b>	<b>Promote homeownership and affordable housing and support an efficient secondary mortgage market</b>
<i>Performance Goal 2.1</i>	<i>Develop proposed and final regulations to implement statutory changes in Fannie Mae and Freddie Mac affordable housing goals effective January 1, 2010 while enforcing existing goals</i>
<i>Actual Performance</i>	
<i>Performance Goal 2.2</i>	<i>The Federal Home Loan Banks foster the development of affordable owner-occupied and rental housing for eligible very low-, low- and moderate-income households</i>
<i>Actual Performance</i>	
<i>Performance Goal 2.3</i>	<i>Promote an efficient secondary mortgage market by increasing transparency of mortgage market developments, and 14 Housing GSE's risks and activities</i>
<i>Actual Performance</i>	
<i>Performance Goal 2.4</i>	<i>Communicate effectively with all stakeholders on the 14 Housing GSE risks and activities, mortgage markets, the nation's housing finance system and regulatory issues</i>
<i>Actual Performance</i>	
<i>Performance Goal 2.5</i>	<i>Cooperate with other Federal agencies on mortgage markets and the nation's housing finance system and regulatory issues</i>
<i>Actual Performance</i>	



<b>Strategic Goal 3</b>	<i>Through Conservatorship, FHFA will preserve and conserve the assets and property of Fannie Mae and Freddie Mac and enhance their ability to fulfill their mission.</i>
<b>Performance Goal 3.1</b>	<i>Preserve and conserve each Company's assets and property</i>
<b>Performance Goal 3.2</b>	<i>Continue to delegate appropriate authorities to each Company's management to move forward with the business operations</i>
<b>Performance Goal 3.3</b>	<i>Work with the Enterprises to lessen problems in mortgage markets by reducing preventable foreclosures</i>
<b>Resource Management Strategy</b>	<b><i>Manage effectively FHFA's human capital and resources to support our mission.</i></b>
<b>Performance Goal 4.1</b>	<i>Maintain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the goals of the agency</i>
<b>Actual Performance</b>	
<b>Performance Goal 4.2</b>	<i>Provide effective information resource management services to FHFA managers and staff to support the goals of the agency</i>
<b>Actual Performance</b>	
<b>Performance Goal 4.3</b>	<i>Maintain a strong internal control and risk management program</i>
<b>Actual Performance</b>	
<b>Performance Goal 4.4</b>	<i>Ensure the continuity of FHFA's business functions</i>
<b>Actual Performance</b>	
<b>Performance Goal 4.5</b>	<i>FHFA's internal operations effectively support the mission and goals of the agency</i>
<b>Actual Performance</b>	

**APPENDIX A – FHFA Organization**

