



Federal Housing Finance Agency



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STRATEGIC PLAN

2009–2014

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## Mission

**Provide effective supervision, regulation and housing mission oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.**



## FHFA Values

The FHFA is results-oriented and accomplishes its mission through teamwork, mutual respect, and the contributions of each FHFA employee. The five core values below guide the mission and operations of FHFA.

### Accountability

We foster responsibility on the part of individual employees and divisions through defined delegations of authority. We align our actions and resources with our mission and respond promptly and proactively to emerging risks. We adhere to a predictable risk-based supervision program. We use agency resources and authorities efficiently and effectively to achieve our mission and goals.

### Responsiveness

We cooperate, collaborate, and communicate within FHFA, with other government agencies, the Congress, and the public. We respond promptly to external requests, and regularly disseminate information about the housing industry and markets. We promptly address and clearly communicate issues, decisions, and conclusions to the housing GSEs.

### Independence

We are an arms-length regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Bank system. Our evaluations of the housing GSEs are unbiased and remain free from external influence.

### Integrity

We adhere to the highest ethical and professional standards. We treat the housing GSEs, the public, policy makers and other stakeholders fairly with impartiality and respect. We apply consistent treatment to and among the housing GSEs, and base our decisions on the merits of their current actions and conditions.

### Professionalism

We maintain a highly skilled, dedicated and diverse workforce. We promote equal opportunity and advancement on the basis of merit. We recognize employees who demonstrate competence and effectiveness in their decisions and actions, and whose results serve the agency's mission and the public interest. We judge the housing GSEs against defined industry standards through a disciplined examination approach.



## Message From the Director



**I am pleased to provide the first Strategic Plan for the Federal Housing Finance Agency (FHFA). The FHFA was created by the Housing and Economic Recovery Act of 2008 (HERA) as**

the primary regulator of the housing GSEs, which are Fannie Mae, Freddie Mac (Enterprises), and the twelve Federal Home Loan Banks (FHLBanks). This Strategic Plan outlines clear goals and objectives, and demonstrates how we will work together to fulfill our expanded mission at this critical time in our nation's housing markets.

The year 2008 was the most challenging in the history of the two predecessor agencies, the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board. The precipitous collapse of home sales and housing prices and the rise in foreclosures affected the financial performance of domestic financial institutions and threatened financial markets worldwide. The Enterprises required government intervention and were placed in conservatorship. The FHLBanks cooperative ownership and capital structure allowed them to grow and support the mortgage market as many others withdrew, but the FHLBanks too came under pressure as the value of private label mortgage-backed securities (MBS) declined.

Safe and sound housing GSEs will better contribute to stabilizing the mortgage markets by further reducing foreclosures and assisting borrowers who are at risk of losing their homes. Over the next couple of years Fannie Mae and Freddie Mac's role in the Making Home Affordable program will be critical in stabilizing the mortgage market. The stronger regulatory framework created by HERA will be crucial in achieving and maintaining safety and soundness in the housing GSEs, and the success of our efforts as an agency. I am confident that this Strategic Plan creates the vision necessary to fulfill the responsibilities vested in FHFA.

As we face the many challenges ahead, FHFA will adhere to its mission to:

Provide effective supervision, regulation and housing mission oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks to promote their safety and soundness, support housing finance and affordable housing, and support a stable and liquid mortgage market.

FHFA will continue to achieve this mission by focusing on three Strategic Goals and a Resource Management Strategy.

## Strategic Goals

1. The housing GSEs operate in a safe and sound manner and comply with legal requirements.
2. The housing GSEs support a stable, liquid and efficient mortgage market including sustainable homeownership and affordable housing.
3. FHFA preserves and conserves the assets and property of the Enterprises, ensures focus on their housing mission, and facilitates their financial stability and emergence from conservatorship.

## Resource Management Strategy

FHFA has the personnel, resources and infrastructure to manage effectively and efficiently to achieve its mission and goals.

This Strategic Plan for 2009-2014 details FHFA's Strategic Goals and objectives that underlie the actions we will take to restore the financial health of the Enterprises, enhance the FHLBank System, and contribute to the strength and stability of the nation's housing finance market and affordable housing. We recognize that as the mortgage industry evolves we must remain flexible in our regulatory approach.

Working together with Congress and the Administration, we can enhance the financial strength of the housing GSEs and help to restore confidence in the U.S. housing finance system. We will work with other government agencies to coordinate efforts and identify risk and opportunities of common interest that affect the safety and soundness of the housing GSEs, the housing finance system, and the nation's mortgage markets.



James B. Lockhart III  
Director



## FHFA STRATEGIC PLAN 2009–2014

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## Introduction

### A New Regulatory Agency

**O**n July 30, 2008, former President George W. Bush signed HERA into law, which

created an independent, unified 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 – the housing GSEs and the FHLBanks' Office of Finance. In addition, HERA created a new regulator, FHFA, by combining 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).

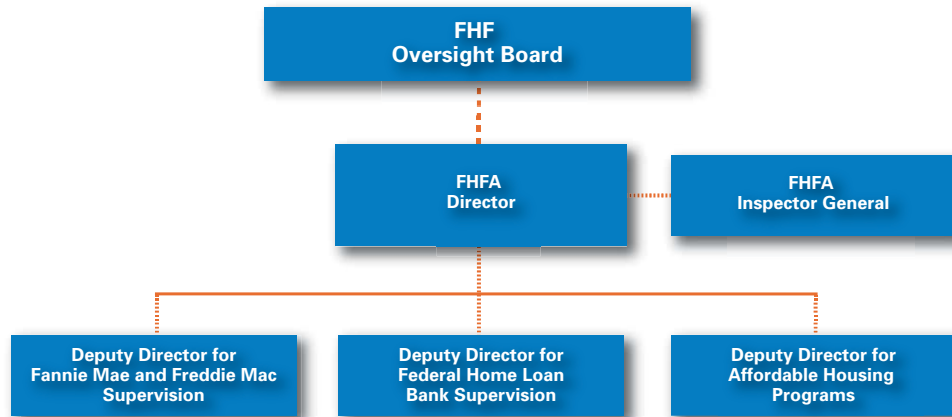
James B. Lockhart III was designated the first Director of FHFA upon enactment of HERA. Prior to the enactment, OFHEO and FHFB staff began working together to ensure a coordinated approach to oversight responsibilities and a timely consolidation of the agencies. Officials from OFHEO, FHFB, and the HUD GSE Mission Office met to promote open and frequent communication and to share information, including discussions supporting the development of this new Strategic Plan and the agency's performance budget. Supervision and legal staff members began to develop regulations that would apply to the new agency and the housing GSEs. Former OFHEO, FHFB, and HUD GSE Mission Office employees were transferred to the new agency to support the FHFA mission.

### Market Challenges/Safety and Soundness of the Housing GSEs

A stable and liquid mortgage market, affordable housing, and community investment are essential to achieving and maintaining our country's goal of sustained housing and home ownership for our citizens. The housing GSEs' actions, and safety and soundness are critical because of their large role in the housing finance market. At year end 2008, the combined debt and obligations of the housing GSEs totaled \$6.7 trillion, exceeding the total publicly-held debt of the United States by \$300 billion. The housing GSEs also purchased or guaranteed 77.6 percent of new mortgages in 2008. FHFA's coordinated oversight of the



## Organizational Structure Defined by the Law



## FHF Oversight Board Members



*James B. Lockhart III*  
Chairman, FHF  
Oversight Board  
Director  
Federal Housing  
Finance Agency



*Shaun Donovan*  
Secretary  
U.S. Department  
of Housing  
and Urban  
Development



*Timothy F. Geithner*  
Secretary  
U.S. Department  
of Treasury



*Mary L. Schapiro*  
Chairman  
U.S. Securities  
and Exchange  
Commission

### FHF Oversight Board

FHFA has an Oversight Board that meets quarterly and testifies before Congress annually. While the Director of FHFA is vested with management responsibilities for the agency, the Director also serves as the Chairman of the Oversight Board. The other Board members are the Secretary of the Treasury, the Secretary of HUD and the Chairman of the SEC. The Oversight Board is an advisory board and does not have managerial responsibilities.

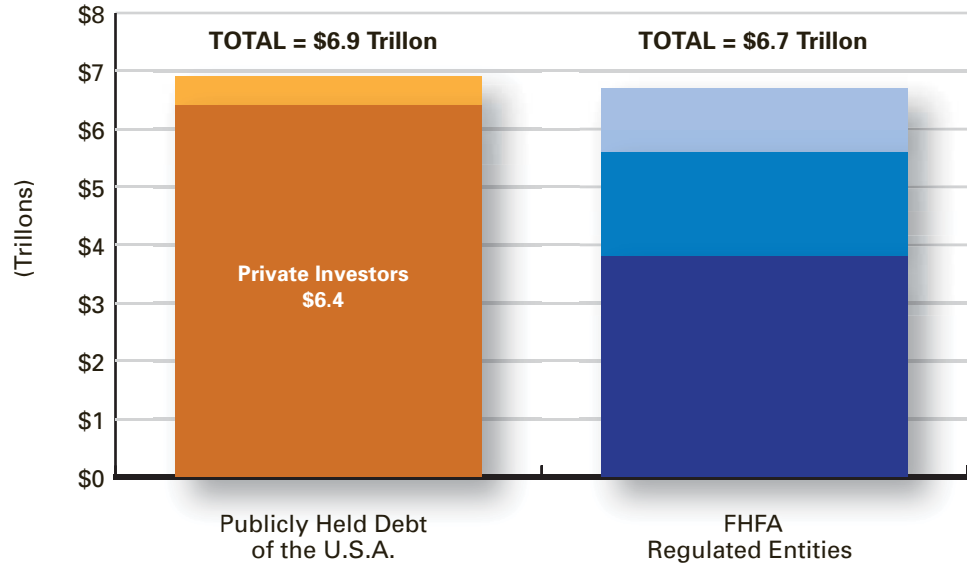
housing GSEs facilitates innovation and cooperation among them to provide liquidity and stability to the mortgage market.

As outlined in this Strategic Plan, 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 has an important role in defining the Enterprises' future structure and roles. FHFA plans to employ a flexible and effective regulatory program that promotes the housing GSEs' safety and soundness and mission, and market stability.

### About the New Regulator

By having one regulator over all housing GSEs, FHFA can provide a stronger, more consistent, and coordinated approach to the supervision of the housing GSEs and the promotion of stability and liquidity in housing and financial markets. The agency will fulfill its mission through an organizational structure defined by the law – a Director appointed by the President and confirmed by the U.S. Senate, and a Deputy Director responsible for the safety and soundness supervision of the Enterprises, a Deputy Director responsible for the safety and soundness supervision of the FHLBanks, and a Deputy Director responsible for the housing goals and mission oversight over all the housing GSEs. This structure allows FHFA to address the unique characteristics, risk, and challenges presented by the housing GSEs while promoting a unified approach to efforts to support stable and liquid housing and financial markets.

## Relative Size of Regulated Entities Obligations (April 2009)



Source: Fannie Mae, Freddie Mac, Federal Reserve Board, U.S. Treasury Department

Ensuring the housing GSEs continue to provide certainty and stability in the mortgage markets remains our most urgent goal. To achieve our goal, we will continue to work in concert with other government agencies and stakeholders. The second half of 2007 and all of 2008 have seen the worst housing market in decades. Initially, the market’s weakness mainly affected subprime mortgages. However, falling home prices and a weakening economy have spread to a worsened performance of prime mortgages. Foreclosures and problems with credit availability have been especially troublesome for many current and potential homeowners.

The Enterprises, FHFA, the Treasury department, and other government agencies continue to act aggressively to provide support to the conventional conforming mortgage market. Despite those actions and the conservatorships for the Enterprises, confusion and a lack of confidence are still seen in the financial markets. A major challenge going forward is to regain that confidence, which should favorably influence mortgage rates, and housing activity and prices.



The housing GSEs cannot support the secondary mortgage market and achieve their mission goals unless they operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements. FHFA will ensure the housing GSEs' safety and soundness through an examination program that focuses on each entity's key risks. In addition, FHFA will concurrently review similar key risks across all entities to ensure an aggregate knowledge of industry issues, as well as the consistent evaluation of housing GSE activities, and their corrective actions for identified deficiencies.

### **Housing Mission**

FHFA's oversight of the housing GSEs' support for housing finance, including affordable housing programs, is an essential goal for our agency. The newly combined staff members from OFHEO, FHFB, and the HUD GSE Mission Office are working collaboratively to establish goals for housing finance and affordable housing within the required timelines set in HERA.

### **Conservatorship of Fannie Mae and Freddie Mac**

The Enterprises' continued, viable role in the mortgage market is a critical goal for FHFA. Due to safety and soundness concerns and market conditions that affected the Enterprises, the Director appointed FHFA as the conservator for Fannie Mae and Freddie Mac in September 2008 to ensure that they could continue to fulfill their missions. FHFA will meet its responsibility for the overall guidance of both entities while maintaining an independent supervision and examination program.

### **Rating Framework**

FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to report examination results and conclusions to the Board of Directors and Congress is known as GSEER, which stands for Governance, Solvency, Earnings, and Enterprise Risk (Enterprise Risk comprises credit, market, and operational risk).

*Staff meets to discuss agency initiatives.*



## **Resource Management**

FHFA has built a strong team of employees with a wide range of expertise. FHFA will continue to review the resources from the combined, former agencies, and revise and strengthen its policies and programs for diversity, personnel development, internal controls, and risk management. In addition, FHFA has and will continue to reallocate personnel as needed to make the most effective use of skills and knowledge in all functions. We will also strengthen tools used by personnel to make the most effective use of resources.



## STRATEGIC GOAL 1

# Safety and Soundness

**T**he housing GSEs operate in a safe and sound manner and comply with legal requirements.

FHFA's primary goal as a regulator is to ensure that the housing GSEs 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 for the housing GSEs requires attention to all aspects of operation and management, the risks inherent in their activities, and the dynamic environment in which they operate.

### Performance Goals

- 1.1** Fannie Mae and Freddie Mac comply with legal requirements and operate in a safe and sound manner with adequate capital and access to funds and capital.
- 1.2** The Federal Home Loan Banks and the Office of Finance comply with legal requirements and operate in a safe and sound manner with adequate capital and access to funds and capital.

### MEANS AND STRATEGIES

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



FHFA's supervision program and the conservator's guidance help strengthen the safety and soundness of the housing GSEs. This includes FHFA's work with other regulatory agencies which oversee companies that originate, service, and ensure the loans acquired or guaranteed by the housing GSEs. The goal of these efforts is to ensure that risks at the housing GSEs are reduced to or maintained at appropriate levels.

*FHFA executives discuss strategies relating to safety and soundness challenges of the GSEs.*



To meet this strategic goal, FHFA will:

- Monitor the housing GSEs' compliance with applicable laws, regulations, directives and agreements, including those relating to executive compensation, governance, and disclosure, and take enforcement action if necessary;
- Conduct applied research and in-depth analysis on a wide range of safety and soundness and capital adequacy issues that will increase FHFA's understanding of the housing GSEs, the markets in which they are engaged, and the risks that threaten them; and
- Provide guidance, regulations, policy statements, and directives to the housing GSEs to prevent new problems or worsening of existing problems, and to facilitate the transparency of the supervisory process.

### **Supervision of Fannie Mae and Freddie Mac**

HERA's 2008 enactment created an independent, unified regulator with additional authorities and bank regulator-like powers. These expanded authorities and powers strengthened FHFA's ability to oversee and control the safety and soundness of the housing GSEs and the FHLBanks' Office of Finance.



The FHFA division of enterprise regulation uses a supervisory 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. FHFA conducts targeted examinations that focus in depth on specific risks or issues warranting further investigation. FHFA also conducts ongoing reviews of the financial performance of the Enterprises, reassessing the risk profile of each entity continuously to focus resources on the areas of most concern. Conclusions from supervisory activities are provided to management and boards of directors to ensure timely corrections and improvements. In addition, FHFA monitors the Enterprises' implementation of accounting developments and standards.

The quality of the Enterprises' condition is categorized based on the division of enterprise regulation's safety and soundness rating system – GSE Enterprise Risk Rating System (GSEER). The GSEER focuses supervision resources on the vital elements of the Fannie Mae's and Freddie Mac's condition, and allows for an efficient, effective assessment of the Enterprises. FHFA assigns a composite rating under GSEER as well as component ratings for governance, solvency, earnings, and Enterprise risk (credit risk, market risk, and operational risk). FHFA issues an annual report of examination to Congress, and an annual report of examination and a midyear letter to their Board of Directors which consolidate findings and present a comprehensive assessment of the two Enterprises to their Board of Directors. FHFA also meets with the boards to discuss findings and concerns covered in these documents.

FHFA monitors the early-alert triggers described in the prompt supervisory response regulation to note emerging risks and ensure that any needed regulatory response is timely. When warranted, FHFA uses the enforcement authorities at its disposal including entering into supervisory agreements with the two Enterprises, issuing directives and/or supervisory letters.

## Supervision of the Federal Home Loan Banks

The FHFA division of bank regulation evaluates the risk profile, condition, and performance of each FHLBank and the Office of Finance through annual and other on-site examinations, as well as off-site monitoring and analysis. These on-site examinations are the cornerstone of a strong safety and soundness supervisory program. As part of each examination, staff members:

- Assess the FHLBanks' management of the credit, market, and operational risks that arise from its business and operations;
- Evaluate the FHLBanks' financial condition and performance, capital adequacy, and corporate governance; and
- Assess the FHLBanks' compliance with federal laws, rules, and regulations.

### FHLBank Membership

According to the FHLBank Act, membership in an FHLBank is limited to savings associations, cooperative banks, homestead associations, commercial banks, savings banks, credit unions, and insurance companies. Eligible institutions must apply for membership to the FHLBank that serves the geographical area where the institution has its principal place of business. All members must purchase and hold stock issued by their respective FHLBanks.

During the annual on-site examinations, the division of bank regulation evaluates the actions taken by the FHLBanks in response to supervisory findings identified during the previous year's on-site examination. FHFA will 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. FHFA conducts targeted, in-depth examinations that focus on specifically identified areas of risk or risk management that warrant further investigation. FHFA reviews 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. In addition, FHFA monitors the FHLBs' implementation of accounting developments and standards.

In addition, FHFA is developing and updating metrics and an analytical framework for evaluating the capital strength, governance practices, credit risk, market risk, operational risk and affordable housing program activities of the FHLBanks. FHFA evaluates FHLBanks' income projections and considers alternative market risk management strategies.

The FHLBank rating system is a risk-focused rating system under which each FHLBank and the Office of Finance is assigned a composite rating based on an examination of various aspects of its operations. The composite rating of each FHLBank is based on an evaluation and rating of five key components: corporate governance, market risk, credit risk, operational risk, and financial condition and performance. The composite rating of the Office of Finance is based primarily on an evaluation of two components: corporate governance and operational risk. The quality of the administration of an FHLBank's affordable housing and community

*Staff meets to assess and evaluate the performance of the FHLBanks.*





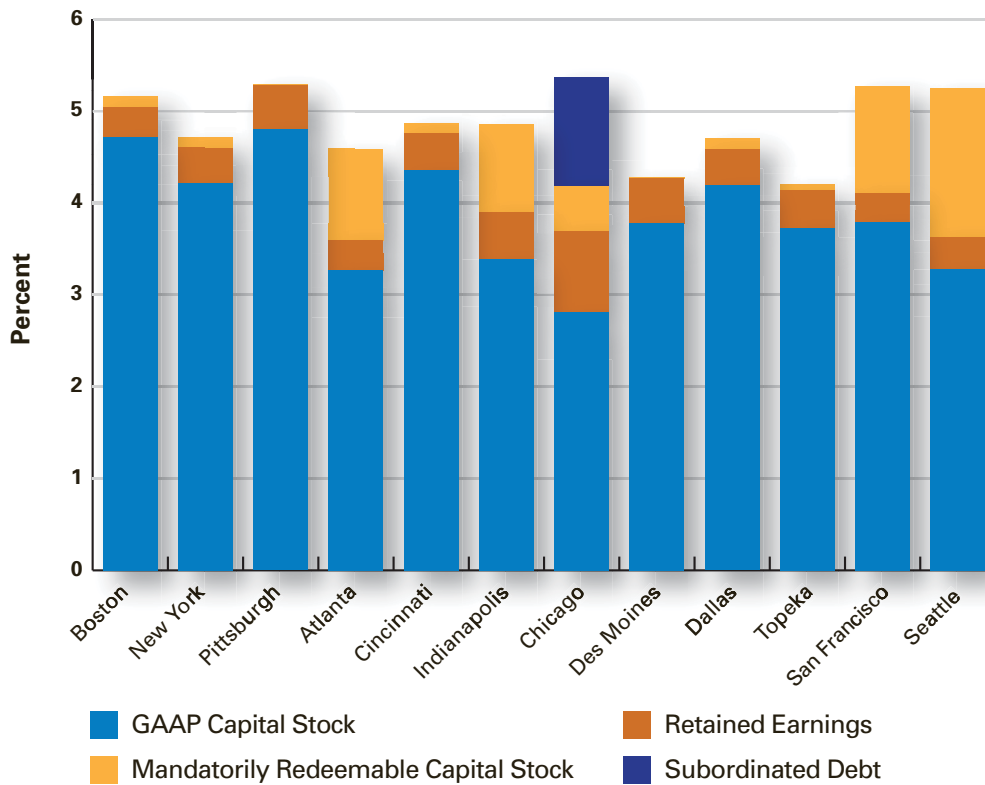
investment activities is taken into account under the corporate governance and operational risk components of the rating system. The division of bank regulation communicates examination findings, and conclusions are communicated to the boards of FHLBanks and the Office of Finance, and the FHLBanks and the Office of Finance receive a report of examination annually.

### New Capital Standards

The development of FHFA’s new risk-based capital standard is a multi-year project which will result in a regulatory economic capital model that serves as the basis for a risk-based capital requirement for Fannie Mae and Freddie Mac. The model may also be used to evaluate capital at the FHLBanks.

FHFA will develop a new risk-based capital standard that is based on a market valuation approach and begin using it to measure the capital adequacy of Fannie Mae and Freddie Mac once they emerge from conservatorship. This new model will

**Capital Ratio and Composition (at March 31, 2009)**



Source: Federal Housing Finance Agency

*FHFA staff discusses issues involving capital standards.*



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. FHFA's use of several methods and models to evaluate capital will better estimate the amount of capital commensurate with Fannie Mae's and Freddie Mac's risks. FHFA can use this information to ensure that Fannie Mae and Freddie Mac are taking appropriate actions to achieve or maintain a level of capital that is consistent with safety and soundness standards.

FHFA also will develop a revised minimum capital requirement applicable to the Enterprises. FHFA will ensure that the Enterprises have in place, and continuously improve, internal economic capital models that will serve to guide risk management and lead to sound business decisions.

Elements of the new risk-based capital model for the Enterprises will also be incorporated into the existing risk-based capital model for the FHLBanks to achieve consistency with best practice, as appropriate.



## STRATEGIC GOAL 2

### Housing Mission

**The housing GSEs support a stable, liquid and efficient mortgage market including sustainable homeownership and affordable housing.**

Fostering a stable, liquid and efficient secondary mortgage market creates an environment for a steady stream of funds for homeownership and affordable housing. The market has become increasingly dynamic and complex and the housing GSEs comprise a large share of that market. The housing GSEs contribute to the smooth operation of the markets by providing liquidity and stability and by meeting housing goals. For any market to work efficiently, its participants must have access to reliable information to make decisions. FHFA's House Price Index (HPI) and associated research help provide the tools for these decisions. FHFA will work with other agencies to coordinate decisions and efforts that affect the secondary mortgage market and will provide information and analysis to the public.

The housing GSEs have a central role in the mortgage markets, and their underwriting standards, fee guidelines, and programs for managing mortgage delinquencies and home foreclosures influence actions and products throughout the mortgage market. FHFA's policy research and analysis helps inform stakeholders and contributes to effective supervision. FHFA's

housing mission goals will influence the housing GSEs' actions, and set a baseline for housing finance, including community investment and affordable housing throughout the nation.

#### Performance Goals

- 2.1** FHFA ensures the housing GSEs support a stable, liquid and efficient mortgage market.
- 2.2** FHFA ensures the housing GSEs provide leadership in housing finance and affordable housing by operating these programs in an



### AHP Homeownership Set-Aside Program

An FHLBank may set aside up to the greater of \$4.5 million or 35 percent of its AHP funds each year to assist low- or moderate-income households purchase homes. Set-aside funds may be used for down payment, closing cost, counseling or rehabilitation assistance in connection with the household's purchase or rehabilitation of an owner-occupied unit. Set-aside funds may also be used for refinancing. Homeownership set-aside programs are voluntary, although each FHLBank offers at least one set-aside program.

effective and efficient manner, developing products, establishing partnerships, and financing homes for very low, low, and moderate income households.

- 2.3 FHFA supports an efficient secondary mortgage market through research that increases transparency of the housing GSEs' risks and activities, and improves understanding of mortgage market developments.
- 2.4 FHFA collaborates with other Federal agencies and stakeholders to share information concerning mortgage markets, the nation's housing finance system, and regulatory issues.

### MEANS AND STRATEGIES

FHFA establishes the housing mission goals for the housing GSEs, and monitors their success in achieving them. The housing mission and related goals are being established or revised as required by HERA. FHFA is working closely with the housing GSEs and other stakeholders to ensure the new goals are realistic and take into account recent events in the housing industry. FHFA also provides the industry with a consistent flow of information by collecting, analyzing, and consolidating information from a variety of sources. A deeper understanding of the housing markets and of policy options will help ensure effective supervision of the housing GSEs and enhance their ability to fulfill their mission.

*Edward J. DeMarco, FHFA Chief Operating Officer and Senior Deputy Director of Housing Mission and Goals, makes a presentation about the housing program.*





## Housing Programs

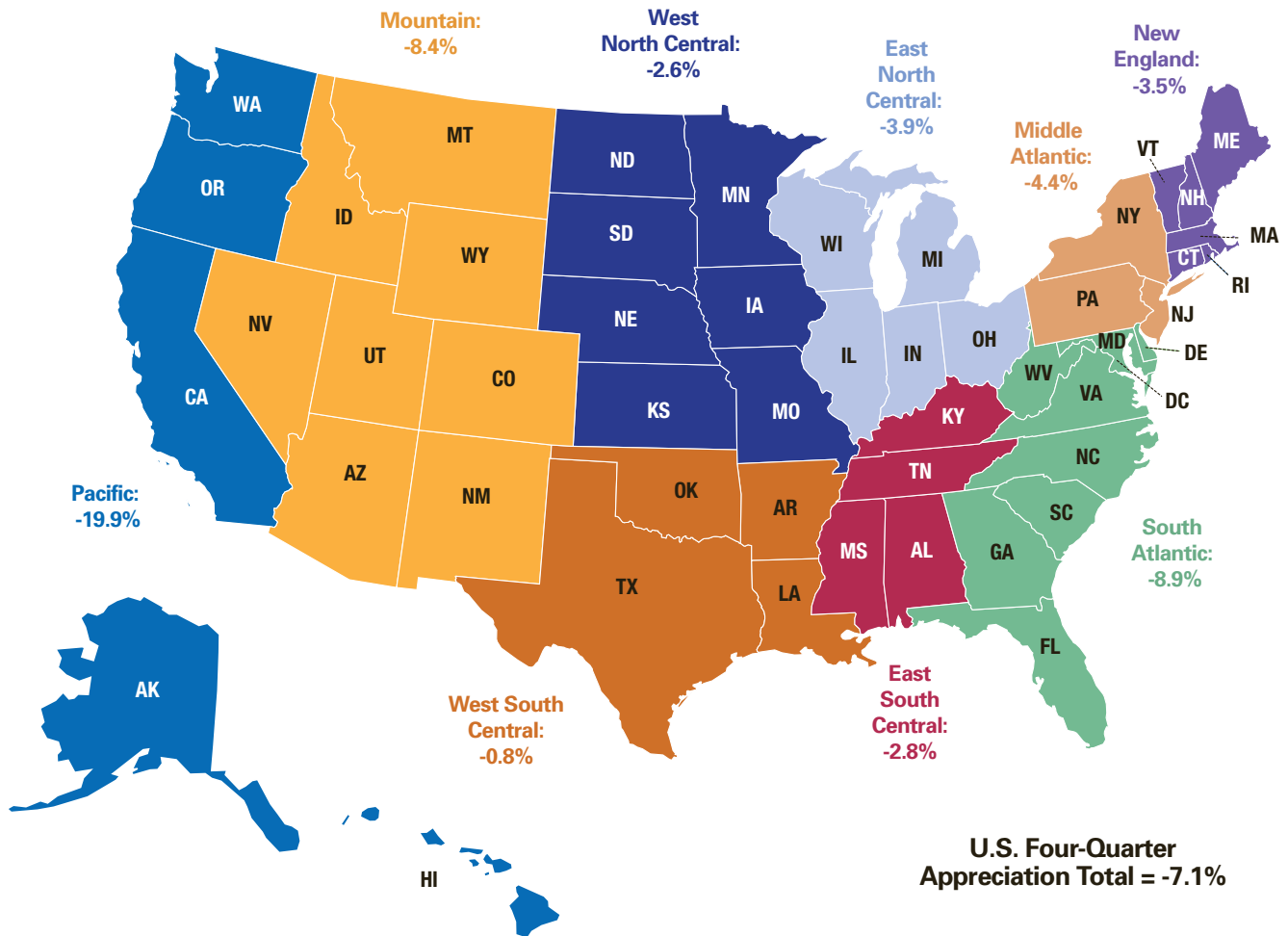
One of FHFA's key responsibilities is to oversee the affordable housing programs at the housing GSEs. FHFA is now enforcing the Enterprises' housing goal requirements, which had previously been the responsibility of the HUD GSE Mission Office. The FHLBanks have Affordable Housing Programs (AHP), but have not had established goals for mortgage purchases as the Enterprises do. HERA requires the establishment of housing goals for the FHLBanks. In addition to AHP, the FHLBanks may offer programs for targeted community investment. Member institutions of the FHLBanks must achieve FHFA-established standards for community support through meeting community investment and first-time homebuyer needs. FHFA oversees the FHLBanks' housing, community investment and community support programs through examination activities.

## Policy and Research

For mortgage markets to work efficiently, its participants need reliable information that increases transparency of the housing GSEs' risks and activities, and improves the participants' understanding of market developments. FHFA's policy research and analysis helps inform participants and contributes to effective supervision of the housing GSEs. To meet this strategic goal, FHFA will:

- Expand the quarterly HPI and related products by, for example, producing a median HPI, expanding the geographical areas covered and providing analysis of specific markets;
- Increase transparency of mortgage market and Enterprise-related developments by publishing conclusions and findings of FHFA's annual examination through the Annual Report to Congress;
- Address emerging issues and external events affecting the GSEs and the housing finance markets through timely policy analysis; and
- Produce research and analysis focused on key policy issues, such as the implications of loan limit changes, concentration within the mortgage markets and Enterprise market share.

### Four-Quarter Price Change Reflected in Seasonally-Adjusted, Purchase-Only Index: 2008 Q1 – 2009 Q1



Source: Federal Housing Finance Agency



## Outreach and Communication

FHFA uses several methods of communication to reach or obtain information from stakeholders to exchange information. The exchange of information among the major stakeholders and government agencies is key to FHFA's support of an efficient secondary mortgage market and effective decision-making. FHFA's outreach to major stakeholders includes communication with the public, Congress, the housing GSEs, community groups, investors in GSE securities, and mortgage industry groups of banks, servicers, and mortgage insurers.

The FHFA designed and created its new web site, [www.fhfa.gov](http://www.fhfa.gov), which consolidates information from OFHEO, FHFB, and the HUD GSE Mission Office as well as provides new site features. Through this web site, FHFA provides the viewers with information on the housing GSEs, the risks they face, the economic environment in which they operate, and policy issues involving FHFA. The FHFA web site also features speeches and testimony, policies and guidelines, capital classifications, research and working papers, detailed information about the FHFA HPI, and news releases that apply to the housing GSEs. FHFA uses the results of user surveys to ensure that its new web site is user-friendly and to make future improvements.

FHFA sponsors outreach meetings and educational efforts to share information among industry stakeholders and government agencies and improve all players' understanding of the agency's operations, proposals, and regulatory activities, the financial condition of the housing GSEs, and issues impacting the mortgage markets. Meetings or speeches are regularly scheduled with Congress, the news media, industry forums, regulatory groups, and other government agencies.

FHFA responds to inquiries from the public in a consistent, courteous, accurate, and timely manner. In addition, FHFA seeks to ensure appropriate transparency in its responses to public inquiries regarding the housing GSEs, as well as to those inquiries that relate to FHFA's operations, its proposals, and regulatory activities.



## STRATEGIC GOAL 3

# Conservatorship

**F**HFA preserves and conserves the assets and property of the Enterprises, ensures focus on their housing mission, and facilitates their financial stability and emergence from conservatorship.

The conservatorship of Fannie Mae and Freddie Mac allows the FHFA to preserve the assets of the Enterprises, ensure they focus on their housing mission and are positioned to emerge from conservatorship as financially strong, with operations, controls and risk management that meet or exceed industry standards.

### Performance Goals

- 3.1** Preserve and conserve each Enterprise's assets and property.
- 3.2** Delegate appropriate authorities to each Enterprise's management to continue with or improve upon the Enterprises' mission and their business operations.
- 3.3** Ensure the Enterprises have effective programs that respond to problems in mortgage markets by reducing preventable foreclosures.
- 3.4** Work with the Administration and Congress to develop an effective structure for Enterprises to emerge from conservatorship.

### MEANS AND STRATEGIES

While the Enterprises work to emerge from conservatorship, FHFA and the conservator will ensure that the two Enterprises continue to support the secondary market and affordable housing, play a key role in reducing home foreclosures, and improve their own governance, risk management and financial strength. While the markets and the two Enterprises stabilize, FHFA and the conservator



will support the policy makers within the U.S. government so that they determine the best purpose and structure of the two Enterprises when they emerge from conservatorship. To meet this strategic goal, FHFA and the conservator will:

- Help restore confidence in the Enterprises;
- Enhance their ability to fulfill their mission;
- Help mitigate issues of systemic risk leading to market instability;
- Work with the Enterprise boards and management to establish priorities and milestones for accomplishing these goals;
- Monitor the Enterprises' major policy and business decisions, and their impact on profits and their housing mission; and
- Work with the Administration and Congress.

The Office of Conservatorship (OC) assists the Director as conservator. This office monitors the two Enterprises and guides their actions so that they can meet their housing mission goals while working to position them to emerge from conservatorship as strong companies that operate in a safe and sound manner.

OC operates separately from the other FHFA offices to promote clarity in roles and responsibilities. It is not intended to create firewalls among offices, which must communicate freely and provide mutual support in the advancement of FHFA's mission and responsibilities.

## Placing the Enterprises into Conservatorship

Due to safety and soundness concerns and market conditions that affected the Enterprises, the Director appointed FHFA as the conservator for the Enterprises in September 2008. Conservatorship is a statutory process designed to stabilize troubled institutions with the objective of maintaining normal business operations and restoring financial safety and soundness. Under conservatorship, FHFA is responsible for the overall management of both institutions 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 business operations under the conservator.

The Enterprises opened for business as usual on Monday, September 8, 2008, with FHFA examiners on-site at their headquarters and other key locations to ensure a smooth transition. The FHFA Director appointed new CEOs for both Enterprises and nonexecutive chairmen and other members for the new Boards of Directors. Under the terms of the Senior Preferred Stock Purchase Agreements, each Enterprise may increase its portfolio of mortgages up to \$900 billion over 15 months in order to support the troubled mortgage market, before requiring gradual declines of ten percent per year until a \$250 billion ceiling is reached. There are no restrictions on the amount of MBS that each Enterprise can guarantee. In addition, all lobbying by the Enterprises was immediately stopped and neither departing CEO received "golden parachute" payments. The FHFA Director also eliminated dividends on all common and preferred stock.

## Department of Treasury Actions

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 FHLBanks using their 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; and
- Inject capital up to \$200 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.

## Federal Reserve Facilities

On November 25, 2008, the Federal Reserve announced plans to purchase up to \$100 billion in government-sponsored enterprise (GSE) debt and up to \$500 billion in agency MBS.

On March 18, 2009, the Federal Reserve announced plans to purchase up to an additional \$750 billion of agency MBS, bringing its total purchases of these securities to up to \$1.25 trillion this year, and to increase its purchases of agency debt this year by up to \$100 billion to a total of up to \$200 billion.

## Reducing Preventable Foreclosures

FHFA will continue to work with the White House, the Treasury Department, HUD, other regulators, and the Enterprises in the development and implementation of the 'Making Home Affordable' program that Treasury announced in March 2009. This program is a major step forward in reducing preventable foreclosures and stabilizing the housing market. The Enterprises participate in the Home Affordable Modification Program (HAMP) both for the loans that they own or guarantee and as administrators on behalf of the Treasury Department for all other loan modifications under this program. The Enterprises are the sole participants in the Home Affordable Refinance Program (HARP) which is designed to permit refinancing for 4 to 5 million people whose loans are owned or guaranteed by the Enterprises. The refinance option may allow borrowers that currently owe between 80 and 125 percent of the value of their home to refinance their mortgages.





## Resource Management Strategy

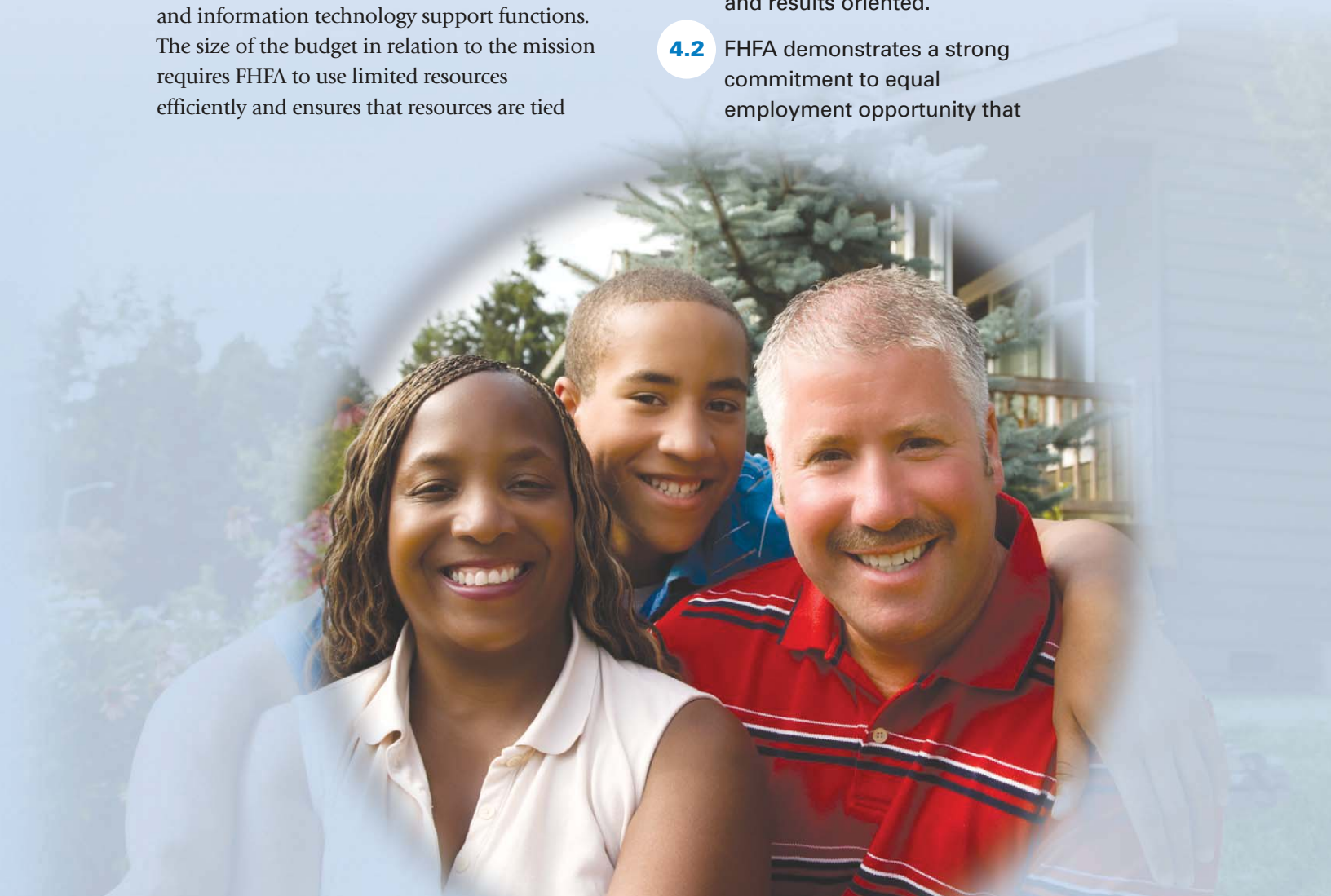
**F** FHFA has the personnel, resources and infrastructure to manage effectively and efficiently to achieve its mission and goals.

FHFA's success in achieving its strategic goals depends on the effective management of resources and seamless financial, administrative and information technology support functions. 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. FHFA managers use timely information for decision-making that links Strategic Planning, program performance, budget, and operational strategies. FHFA is dedicated to maintaining a results-oriented performance culture through effective and efficient management of its resources.

### Performance Goals

- 4.1** FHFA has a diverse workforce that is highly skilled, highly motivated and results oriented.
- 4.2** FHFA demonstrates a strong commitment to equal employment opportunity that



*FHFA's workforce attends agency-wide All-Hands Meeting.*



supports diversity in employment, operations, and the contracting of services.

FHFA has effective financial and risk management programs.

**4.4** FHFA has the information technology and physical infrastructure needed to achieve its mission and goals.

#### MEANS AND STRATEGIES

FHFA's workforce is its most valuable resource, and is the foundation of FHFA's ability to achieve its mission. FHFA has a number of programs in place or planned to ensure the agency is hiring and retaining a diverse staff with strong professional skills, developing employees and leaders, promoting a performance culture that supports the mission. The effectiveness and efficiency of the FHFA workforce is dependent upon the management of technology and other resources, and an infrastructure that provides controls and quality assurance.



FHFA promotes a cohesive supervisory management structure and strives to foster an inclusive environment and culture that respects challenging ideas, understanding the differences among the housing GSEs.

## Human Capital Strategic Plan

Accomplishing FHFA's mission requires that we attract, hire, develop, reward, and retain a diverse, skilled, and highly motivated workforce. FHFA's human capital plan links our human capital planning to the agency Strategic Plan, mission, and performance goals.

FHFA will focus on ensuring it has the human resources needed to accomplish the mission by achieving the following human capital goals. FHFA's Human Capital Plan outlines the specific initiatives that will be implemented to accomplish these goals.

- FHFA has human capital policies and programs that are integrated with and support the agency mission and strategic performance goals;
- FHFA has identified competency gaps for leadership and mission critical occupations, and has initiated steps to ensure leadership bench strength and depth of knowledge in mission critical occupations;
- FHFA is able to attract, hire, develop, reward, and retain a diverse workforce that is skilled, flexible, and performance-oriented to fulfill the mission and performance goals of the agency;
- FHFA has a Performance Evaluation Management System that is linked to the mission and strategic performance goals, holds employees and managers accountable for achieving results, and rewards employees for successful performance; and
- FHFA has an approved Human Capital Accountability System that supports a results-oriented performance culture, promotes employee morale, and ensures merit system principles are followed.

FHFA is committed to devoting the resources necessary to maintain a responsive and strong EEO program. HERA established new diversity requirements for FHFA, and the housing GSEs for which the FHFA must ensure compliance. These diversity requirements reinforce FHFA's commitment to incorporate veterans, minorities, women, people with disabilities, and other underserved populations into the mainstream economy.

## Use of Technology

FHFA's supervision of the housing 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 housing GSEs' operations that the agency regulates. Without technology comparable to that used by other organizations with similar risk assessment and analytical requirements, FHFA's ability to provide independent analysis of safety and soundness issues to accomplish its mission would be compromised. FHFA created an Information Technology Management Strategic Plan that outlines the goals and objectives needed to support the mission and functions of FHFA. FHFA will review the plan annually 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. FHFA will:

- Use the IT Investment Review Committee (IRC) to make effective IT decisions. The IRC review ensures a cost-effective allocation of resources for IT capital investments that are consistent with FHFA's Strategic Plan;
- Implement the agency-wide architecture plan (AWAP). The AWAP will ensure that FHFA 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 also update the Certification and Accreditation of existing systems;
- Support the development and enhancement of the automated supervisory tool that facilitates the examination process and coordinates activities throughout the agency, promoting information sharing and documenting the risk rating process;
- 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 the capital regulation changes, FHFA will make changes to the software model;

- Further develop, support, and maintain the Model FHLBank, in which the agency creates financial instrument models of FHLBanks. FHFA uses the models to project future income, estimate the risk/return characteristics of different risk management or hedging practices, test the viability of proposed transactions (including mergers), analyze the significance of market value versus GAAP differences, estimate the impact of potential fixed income market changes on earnings or condition, estimate the profitability of different business lines, test alternative capital requirements, and for other related purposes;
- 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; and
- Outsource IT programs and models to maintain flexibility and minimum costs for the IT infrastructure.

### **Internal Controls and Risk Management**

FHFA is expanding its use of financial and performance information in managing program operations, integrating its budget and performance development, and making program improvements. FHFA maintains a strong internal control and risk management program, which includes financial management, information security privacy and other management and operating processes. These efforts support the U.S. government's Management Agenda initiative of Improved Financial Performance and the Performance Improvement Initiative, and include the following:

- An independent audit of its financial statements each fiscal year, and revised policies and procedures as necessary to ensure that the agency's resources are used to achieve its strategic and performance goals;

- An external review of its internal controls over agency performance measures and revised policies and procedures as necessary to ensure that the agency's performance measures have sufficient verification and validation for use by management for decision making;
- An independent Federal Information Security Management Act (FISMA) review of its information security program. 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;
- A program to monitor information security and train staff, and updated risk assessments of its systems to ensure that the associated risks have been mitigated. Privacy and information security at FHFA is a shared responsibility among the Senior Agency Official for Privacy, the Chief Information Security Officer, information technology professionals and the entire FHFA staff;
- FHFA will provide the support required for this office to conduct internal reviews of agency activities; and
- A-123 requirements on internal controls implemented by FHFA's executive committee on internal controls.



## External Factors

**T**he following factors could affect FHFA's ability to achieve its strategic goals in the next

five years. They potentially impact FHFA's success by affecting either the performance of the housing GSEs and the housing finance system or by limiting FHFA's ability to ensure the safety and soundness of the housing GSEs' operations and condition.

### Economic Variables

The housing GSEs are large financial institutions focused on one line of business - residential mortgages. Factors in the economic environment that affect the residential mortgage market also affect the business and operations of the housing GSEs, and could weaken their safety and soundness and their ability to meet their housing mission. For example, economic events affecting mortgage demand, such as significant increases in unemployment or foreclosure rates, significant decreases in house prices, or sharp, prolonged changes in interest

rates, have and could continue to significantly affect the financial condition of the two Enterprises or the FHLBanks. During this exceptionally adverse economic period, the housing GSEs have not met and may continue to be unable to meet many regulatory standards. FHFA is requiring the housing GSEs to strengthen their financial practices, business operations, or risk management to mitigate identified weaknesses.

Access to the debt market is critical to the operations of the housing GSEs. Without access that provides sufficient funding, the housing GSEs' ability to operate safely and soundly and support the housing finance market has been and could continue to be substantially weakened. While FHFA has a supervisory framework that assesses the housing GSEs' funding and interest rate risk management practices, economic shocks to and competition in the debt markets has and could continue to cause the housing GSEs to incur high funding costs or limited access to funding.

## Enterprises in Conservatorship

The Enterprises' conservatorship represents a serious challenge to the agency. 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. FHFA has taken action to ensure the Enterprises continue to provide stability, liquidity, and affordability to the housing market. FHFA will be challenged in this difficult economic situation to balance this critical mission with the Enterprises' safety and soundness.

Director Lockhart appointed new CEOs for Fannie Mae and Freddie Mac immediately after announcing the conservatorship and instructed each Enterprise to examine its underwriting standards and pricing. FHFA will continue to develop the 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 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 monitor the market situation closely, working with the Treasury Department, the Federal Reserve, and other regulators. FHFA will guide the Enterprises' activities and decisions and improve their operations to ensure that they are safe and sound and yet continue to provide liquidity and stability to the housing market.

## Creating a New Regulatory Agency

The creation of FHFA involves the merging of staff and resources of OFHEO, FHFB, and the HUD mission team under a new, unified mission regulating the housing GSEs. These efforts require the attention of the Director and agency personnel at the same time that economic conditions and the condition of the housing GSEs also require close oversight. FHFA face administrative and cultural challenges in merging information technologies and systems, financial and human resources functions, and operational differences into a new agency.



In addition to creating the new agency, HERA also established a series of additional responsibilities and requirements for FHFA. The responsibilities include the issuance of numerous regulations and studies that assess the stability of the housing markets and the safety and soundness of the Enterprises and FHLBanks. FHFA will need to complete these required regulations and reports in a short time frame and also issue or revise other regulations, guidance and reports as the FHFA Director finds necessary to ensure effective supervision of the housing GSEs. Although significant progress has been made and FHFA expects to meet the deadlines, the changing conditions of the markets and housing GSEs strain resources and may cause FHFA to reprioritize efforts and deadlines.

### **Technological and Physical Risk**

In the current environment, private firms and government agencies have experienced problems in ensuring the security of their information and continuity of operations. FHFA and the housing GSEs maintain policies to prevent problems within their control from occurring and to provide for continuity of operations when circumstances are beyond their control. Even if an organization is prepared and has safeguards in place to protect data and physical assets, the velocity of change in technology and security threats pose risks that may materialize and could jeopardize the FHFA's ability to achieve its goals.



## Strategic and Performance Goals

The following table provides FHFA strategic and performance goals that are representative of the annual goals the agency will use to measure and manage its performance.

### STRATEGIC GOAL 1

#### Safety and Soundness

The Housing GSEs operate in a safe and sound manner and comply with legal requirements.

##### PERFORMANCE GOALS

1.1

Fannie Mae and Freddie Mac comply with legal requirements and operate in a safe and sound manner with adequate capital and access to funds and capital.

1.2

The FHLBanks and the Office of Finance comply with legal requirements and operate in a safe and sound manner with adequate capital and access to funds and capital.

### STRATEGIC GOAL 2

#### Housing Mission

The Housing GSEs support a stable, liquid and efficient mortgage market including sustainable homeownership and affordable housing.

##### PERFORMANCE GOALS

2.1

FHFA ensures the housing GSEs support a stable, liquid and efficient mortgage market.

2.2

FHFA ensures the housing GSEs provide leadership in housing finance and affordable housing by operating these programs in an effective and efficient manner, developing products, establishing partnerships, and financing homes for very low, low, and moderate income households.

2.3

FHFA supports an efficient secondary mortgage market through research that increases transparency of the housing GSEs' risks and activities, and improves understanding of mortgage market developments.

2.4

FHFA collaborates with other Federal agencies and stakeholders to share information concerning mortgage markets, the nation's housing finance system and regulatory issues.

## STRATEGIC GOAL 3

### Conservatorship

FHFA preserves and conserves the assets and property of the Enterprises, ensures focus on their housing mission, and facilitates their financial stability and emergence from conservatorship.

#### PERFORMANCE GOALS

- |     |   |
|-----|---|
| 3.1 | Preserve and conserve each Enterprise's assets and property.  |
| 3.2 | Delegate appropriate authorities to each Enterprise's management to continue with or improve upon the Enterprises' mission and their business operations. |
| 3.3 | Ensure the Enterprises have effective programs that respond to problems in mortgage markets by reducing preventable foreclosures.                         |
| 3.4 | Work with the Administration and Congress to develop an effective structure for Enterprises to emerge from conservatorship.                               |

### Resource Management Strategy

FHFA has the personnel, resources and infrastructure to manage effectively and efficiently to achieve its mission and goals.

- |     |   |
|-----|---|
| 4.1 | FHFA has a diverse workforce that is highly skilled, highly motivated and results-oriented.   |
| 4.2 | FHFA demonstrates a strong commitment to equal employment opportunity that supports diversity in employment, operations, and the contracting of services. |
| 4.3 | FHFA has effective financial and risk management programs.  |
| 4.4 | FHFA has the information technology and physical infrastructure needed to achieve its mission and goals.  |



## Strategic Planning Process

### **U**nder the normal schedule outlined by the Government Performance and Results Act, in

fiscal year 2009 OFHEO would have revised and updated its Strategic Plan to provide direction and focus in achieving its mission. The FHFB and OFHEO plans were most recently updated in 2006. This is the first Strategic Plan for FHFA.

The FHFA management developed the agency Strategic Plan — long-term strategic goals and the means and strategies to achieve them — in a collaborative process that focused on the

environmental and operational factors that could have a significant impact on the housing GSEs over the next five years. The process began with benchmarking of other agencies' strategic plans and reviewing the prior OFHEO and FHFB strategic plans. Strategic goals and performance goals from the new FHFA Annual Performance Plan were used for discussions with stakeholders. The agency requested input from external and internal stakeholders on issues and areas of focus as that plan was created and used to produce this Strategic Plan.

As the FHFA worked through the OMB Program Assessment Rating Tool (PART) process, new performance measures were developed towards

the achievement for the agency's goals. The FHFA solicited comments on its draft plan from the housing GSEs, Congress, the FHFA personnel and other stakeholders and reviewed and considered them before making the plan final.

Moving forward, the five-year Strategic Plan provides direction and focus to the FHFA management and staff. The FHFA Director presents the goals and strategies within the Strategic Plan to the staff at an all-hands meeting. Individual office directors and managers further explain to staff how their work products and projects relate to the overarching Strategic Plan as annual performance plans and individual project plans are developed.

FHFA uses a variety of mechanisms to ensure accountability of managers and staff for goal achievement. On a quarterly basis, senior management, led by the FHFA Director, meets to review progress toward achieving annual performance goals and discusses any obstacles or issues that would prevent a goal from being achieved. This quarterly monitoring keeps the annual goals visible and the focus of managers' attention. Every FHFA employee's annual job performance plan and individual development plan is aligned in support of the Annual Performance Plan (APP). FHFA employees are rated annually based on their performance in achieving results that lead to the achievement of the FHFA's goals. In addition, other performance-based meetings and efforts discussed in the following section help contribute to the success of goal achievement.



## Program Evaluations

### **F** HFA will conduct program evaluations to monitor and track program performance.

Program evaluation is an important feedback tool that can provide managers with information to ensure that FHFA's goals are meaningful, and the strategies for achieving them are effective. FHFA uses program reviews and evaluations from many sources in revising its strategic and annual goals and measures, its broad strategies, and its ongoing operations and structure to best achieve its mission. In fiscal year 2008, FHFA reviewed the documentation for the Quality Assurance Programs used by federal financial regulators to identify best practices among those agencies and incorporate them into the Office of Supervision's (OS) program. The Office of Management Planning reviewed the summary of OS's best practices and provided a framework for FHFA's quality management program that FHFA is now using. The work of FHFA's inspector general will also provide recommendations for program improvements.

### **Internal**

FHFA regularly evaluates its activities, strategies and progress toward achieving its goals. FHFA uses regular management meetings, all hands meetings, management reports, and performance review meetings to communicate and discuss organizational goals and objectives, and the status of activities to achieve these goals. The agency uses cross agency internal task forces to review internal processes and products, and to recommend improvements and/or to implement them. FHFA is developing a quality assurance function to ensure that its supervisory policies are effective and followed consistently. FHFA implemented the Federal Human Capital Survey and is making improvements after receiving employee feedback.



*FHFA's Performance Planning workgroup meets to discuss planning and performance initiatives.*

#### **EXECUTIVE COMMITTEE ON INTERNAL CONTROLS**

FHFA's Executive Committee on Internal Controls meets quarterly to review the results of internal and external program evaluations. The committee evaluates the findings and establishes appropriate remediation activities for FHFA. Committee activities provide input to FHFA's determinations of the adequacy of internal controls under the Office of Management and Budget Circular A-123.

#### **OFFICE OF INSPECTOR GENERAL**

HERA of 2008 requires the President to appoint an Inspector General for FHFA. The Inspector General conducts reviews of various aspects of agency operations to guard against waste, fraud, and abuse. The Inspector General may also conduct audit or investigative activities at the 12 FHLBanks, OF, Fannie Mae, Freddie Mac, and other related entities when: 1) requested to do so by the Director; 2) necessary to obtain information on FHFA's administration of its program; and 3) aimed at detecting fraud or inefficiency in the administration or operation of FHFA programs. The results of these reviews provide input to FHFA in its management of operations to achieve its strategic goals.

## External

FHFA also relies on the Government Accountability Office (GAO), the Congressional Budget Office (CBO), the Office of Management and Budget (OMB), the Office of Personnel Management (OPM), and other external auditors for reviews and audits and considers their findings to improve operations.

### GOVERNMENT ACCOUNTABILITY OFFICE

The GAO, an investigative arm of Congress, periodically conducts targeted reviews of FHFA and other financial regulators, and testifies before Congress on its observations and recommendations. The Comptroller General will audit the financial statements of FHFA in accordance with the provisions of HERA. The Comptroller General provides a report of the findings to Congress.

### CONGRESSIONAL BUDGET OFFICE

The CBO, also an arm of Congress, periodically issues reports and analytical studies of issues related to the costs, benefits, and risks of the housing GSEs and their oversight, and testifies before Congress on its findings.

### OFFICE OF MANAGEMENT AND BUDGET

OMB, the President's budget office, conducts formal assessments of the effectiveness of agency programs.

### OFFICE OF PERSONNEL MANAGEMENT

OPM periodically conducts reviews of FHFA human capital operations to ensure they support the agency's human capital management and are in compliance with merit system principles.

### EXTERNAL AUDITORS AND REVIEWERS

FHFA contracts annually for an independent review, in accordance with the Federal Information Security Management Act (FISMA), of its information security program. No material weaknesses have been reported from these reviews. FHFA uses these audits and reviews to implement improvements in its information security program.

FHFA also contracts for independent review of key performance indicators and the agency's financial statements.





## Glossary

**Affordable Housing Program (AHP)** • This program subsidizes the cost of owner-occupied housing for individuals and families with incomes at or below 80 percent of the area median income and rental housing in which at least 20 percent of the units are reserved and affordable for households with incomes at or below 50 percent of area medium income. AHP funds are available through a competitive application program and a homeownership set-aside program at each of the FHLBanks. The subsidy may be in the form of a grant or a subsidized interest rate on an advance. Each of the 12 FHLBanks contributes 10 percent of its previous year's net earnings to fund its AHP or \$100 million.

**AHP Income Categories** • Categories are defined by regulation as:

**Low or Moderate Income Household** – An income of 80 percent or less of the median income for the area, with the income limit adjusted for household size in accordance with the methodology of the applicable median income standard, unless such median income standard has no household size adjustment methodology.

**Very Low Income Household** – An income at or below 50 percent of the median income for the area, with the income limit adjusted for household size in accordance with the methodology of the applicable median income standard, unless such median income standard has no household size adjustment methodology.

**Consolidated Obligations (COs)** • Debt obligations issued by Office of Finance on behalf of the FHLBanks. All consolidated obligations, regardless of term, are joint-and-several liabilities of all FHLBanks. This means that if any one FHLBank were to default on its debt obligations, the other FHLBanks would be required to ensure prompt payment of the debt owed by that FHLBank. The joint-and-several liability structure of FHLBank system debt and the FHLBs' GSE status have traditionally allowed the FHLBanks to borrow from capital markets at rates below those of other financial institutions.

**Enterprise** • Fannie Mae or Freddie Mac

**Enterprises** • Term used to refer to both Fannie Mae and Freddie Mac

**FHLBanks** • The twelve Federal Home Loan Banks

**Foreclosure** • A legal process dictated by state law in which the mortgaged property is sold to payoff the mortgage of the defaulting borrower.

**Horizontal Reviews** • Supervisory activities that assess a function, or program across all 12 of the FHLBanks. Such reviews compare operations, strategies, and policies in place at the FHLBanks and enable the agency to identify and share best practices. In addition, concerns, deficiencies and other matters can be identified and are often addressed in advisory bulletins issued by the agency following the review.

**Housing GSEs** • All the government sponsored entities that FHFA regulates: Fannie Mae, Freddie Mac, and the twelve FHLBanks.

**Loan Modification** • A change or changes to the original mortgage terms, which may include a change to the product (adjustable rate to a fixed-rate product), interest rate, term and maturity date, amortization term, and amortized balance.

**Model FHLBank** • Developed and used by analysts at the FHFBA to simulate the risks and expected returns of FHLBanks with similar asset, liability, and hedging strategies. The model can be used to conduct baseline and sensitivity analyses of an FHLBank's risk and return profile.

**Office of Finance** • The Office of Finance is the fiscal agent for the 12 FHLBanks. It issues and services all debt securities for the FHLBanks and prepares the combined financial report. The Office of Finance also administers the Resolution Funding Corporation (REFCORP) and the Financing Corporation (FICO).

**Prime Mortgage** • A mortgage to a borrower with a FICO credit score that is 660 or above.

**Senior Preferred Stock** • Capital stock owned by the Treasury Department, which pays specific dividends before preferred stock or common stock dividends. In the event of a liquidation, senior preferred stock takes precedence over preferred and common stock.

**Stakeholders** • Companies, industry organizations, and individuals that are impacted by the mortgage markets and/or the actions and decisions of FHFA and the housing GSEs.

**Subprime Mortgage** • A mortgage made to a borrower with impaired credit.

## FHFA Contact Information

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**Myrtle S. Habersham**  
*Performance Improvement Officer*

202.414.3800   [FHFAinquiries@fhfa.gov](mailto:FHFAinquiries@fhfa.gov)



## Federal Housing Finance Agency

1700 G Street, NW • Washington, DC 20552 • 202.414.3800

[www.fhfa.gov](http://www.fhfa.gov)

