

Federal Housing Finance Agency



FY 2010 Annual Performance Plan

January 29, 2010

Introduction

The enactment of the Housing and Economic Recovery Act (HERA) in July 2008 created the Federal Housing Finance Agency (FHFA) as a single regulator for Fannie Mae and Freddie Mac (the Enterprises), the 12 Federal Home Loan Banks (FHLBanks), and the Office of Finance (OF). As a new agency, the FY 2010 Annual Performance Plan (APP) is the second annual performance plan developed by FHFA.

The FY 2010 APP implements FHFA's new Strategic Plan and details the revised strategic goals, performance goals, and performance measures, which reflect our expanded responsibilities under HERA and the unprecedented regulatory challenges faced by the agency as a result of the continued turmoil in the housing and financial markets. In addition, the accompanying performance budget will ensure that FHFA has the resources needed to meet these challenges, while continuing to implement the requirements of HERA.

FHFA's Regulatory Approach

A stable and liquid mortgage market together with affordable housing and community investment are essential elements to achieving and maintaining our country's goal of sustained housing and home ownership for our citizens. The 14 housing government-sponsored enterprises (GSEs) – Fannie Mae, Freddie Mac and the 12 FHLBanks – play a primary role in helping to achieve the financial safety and soundness of the nation's secondary mortgage market, including affordable housing and community reinvestment. As of June 2009, the combined debt and obligations of the housing GSEs totaled \$6.6 trillion, exceeding the total publicly held debt of the United States by \$100 billion. Fannie Mae and Freddie Mac (the Enterprises) alone purchased or guaranteed 72.6 percent of new mortgages in the first quarter of 2009.

The housing GSEs cannot support the secondary mortgage market and achieve their public missions of supporting affordable housing unless they operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements. FHFA's approach to regulating the housing GSEs addresses the unique differences in risks at the Enterprises and the FHLBanks, which include business activities, capital structures, the FHLBanks' cooperative form of organization and the joint-and-several nature of the consolidated obligations issued by the FHLBanks. FHFA works to achieve 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 and consistent evaluation of housing GSE activities and their corrective actions for identified deficiencies. Strategic Goal 1 addresses the most critical of FHFA's responsibilities.

In addition to its role as regulator, FHFA is the conservator for Fannie Mae and Freddie Mac (the Enterprises). The Enterprises were put into conservatorship on September 8, 2008, and are expected to remain in this status for the foreseeable future. As their

conservator, FHFA's statutory responsibility is to preserve the assets of the Enterprises over the conservatorship period. Strategic Goal 3 addresses FHFA's responsibilities as the conservator for the Enterprises.

Ensuring that the housing GSEs continue to provide liquidity and stability in the mortgage markets remains our most urgent goal. To achieve this goal, we will continue to work in concert with the White House, the Treasury Department, the Department of Housing and Urban Development, and other government agencies and stakeholders in support of the Administration's Making Home Affordable programs. These programs are designed to help stabilize the housing and mortgage markets which in turn will help strengthen the safety and soundness of the housing GSEs.

Development of a Strategic Plan for the Federal Housing Finance Agency

On July 8, 2009, FHFA published the agency's 2009-2014 Strategic Plan, which details FHFA's long-term strategic goals and the means and strategies to achieve them. FHFA developed the Strategic Plan through a collaborative process that focused on the environmental and operational factors that could have a significant effect on the housing GSEs over the next five years. The process included a review of other agencies' strategic plans, former OFHEO and FHFB strategic plans, FHFA's FY 2009 Annual Performance Plan as well as input from external and internal stakeholders. The Strategic Plan is available to the public on the FHFA website, www.fhfa.gov.

Program Evaluation

FHFA will conduct program evaluations to monitor and track program performance to ensure that FHFA's goals are meaningful and the strategies for achieving them are effective. The work of FHFA's external auditors will provide recommendations for program improvements. Additionally, FHFA will actively participate in new OMB initiatives designed to strengthen and improve agency performance.

Overview of the Performance Plan

This Plan outlines three strategic goals, a resource management strategy, and a series of performance goals and measures for FY 2010. FHFA established a regulatory framework needed to ensure that the operations and activities of Fannie Mae, Freddie Mac, the FHLBanks, and the OF foster liquid, efficient, competitive, and resilient national housing markets, while promoting their safety and soundness. The means and strategies are the key activities, actions, processes and technologies that describe how FHFA will use its fiscal year 2010 resources to achieve each performance goal. FHFA is committed to using all of its new HERA and regulatory authorities to ensure that:

- The housing GSEs operate in a safe and sound manner and comply with legal requirements.
- The housing GSEs support a stable, liquid, and efficient mortgage market including sustainable homeownership and affordable housing.
- 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.
- FHFA has the personnel, resources and infrastructure to manage effectively and efficiently to achieve its mission and goals.

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.

Values:

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 Banks. 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.

Strategic Goal 1:

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

FHFA’s primary duty 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 operations and management, the risks inherent in their activities, and the dynamic environment in which they operate. FHFA has established a new regulatory framework and is in the process of strengthening the supervision program, as well as 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 is enhancing and strengthening 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 may result from enforcement actions.

Performance Goal 1.1:

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

<u>Measure</u>	<u>Target</u>
1.1(1): Each Enterprise improves in one or more component ratings.	September 30, 2010
1.1(2): Within 90 calendar days of recognition, Matters Requiring Attention (MRA) are resolved or are in the process of being resolved in accordance with a remediation plan acceptable to the FHFA.	90% Quarterly

Means & Strategies

FHFA conducts risk-based supervision and examinations at the Enterprises with the primary goal of ensuring that they operate in a safe and sound manner. Throughout the supervision process, FHFA works with the Enterprises 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 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 this, FHFA will

- Continue 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 Enterprises.
- 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 Enterprises and related risk metrics, and reassess the risk profile of each GSE to focus its resources appropriately on the areas of most concern.
- Continue to monitor developments in the market related to sub-prime and non-traditional mortgage products, non-performing loans, counterparty risk, capital, liquidity, accounting and internal controls.
- Ensure each Enterprise meets or exceeds liquidity standards established by FHFA.
- Determine component and composite ratings.
- Prepare reports of examinations and communicate results to the Boards of Fannie Mae and Freddie Mac.
- Complete an Annual Report to Congress.

Capital adequacy is an essential component of Enterprise safety and soundness and their continued financial viability. Due to deficient capital levels, the FHFA Director placed both Enterprises in conservatorship on September 8, 2008. During the conservatorship, FHFA will not issue a quarterly capital classification, but the Enterprises will continue to submit capital reports to FHFA.

At the time the Enterprises were placed into conservatorship, FHFA as conservator for each Enterprise, entered into Senior Preferred Stock Purchase Agreements with the Treasury Department. These agreements ensure that the Treasury Department will contribute cash to an Enterprise when the Enterprise's liabilities exceed its assets. These agreements are designed to ensure each Enterprise maintains a positive net worth.

To accomplish this, FHFA will

- Continue the timely, accurate assessment and reporting of the capital adequacy of each Enterprise. However, the regulatory capital requirements will not be in effect during the conservatorship.
- Continue to develop a new minimum and risk-based capital standard and begin using it as a measure of the Enterprises' adequate regulatory economic capital.
- Ensure that each Enterprise and FHFA develop and implement economic capital models.

Through on-site examinations, the FHFA identifies significant issues and key risks that could compromise their safety and soundness and develops a supervisory strategy that will address identified deficiencies and risks in an appropriate and timely manner. To accomplish this FHFA will

- Identify risks and significant problems at Fannie Mae and Freddie Mac related to market risk, credit risk, operational risk, governance, solvency, and earnings and determine the corrective action needed.
- Communicate these concerns to Enterprise management for establishment of an action or remedial plan subject to FHFA approval.
- Track and monitor progress being made to ensure timely action.
- Verify that actions taken by Fannie Mae and Freddie Mac appropriately correct the issues identified and that such corrective actions provide sustainable solutions to address current and projected risks.

Verification and Validation

Ratings are calculated and final individual risk area rating and composite ratings are determined. This information is provided to the Deputy Director for Enterprise Regulation for verification and confirmation.

Each MRA with the due date for completion is logged into a tracking system and discussed with the Enterprises' Board. When resolved to FHFA's satisfaction, the MRA is closed and the GSE will be notified in writing that they have resolved the concern to FHFA's satisfaction.

Performance Goal 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.

<u>Measure</u>	<u>Target</u>
1.2(1): Each FHLBank is rated “2” or better, or operates under a performance improvement plan acceptable to the FHFA within 90 calendar days of a downgrade below “2”.	Quarterly, beginning June 30, 2010
1.2(2): Each FHLBank is classified as “adequately capitalized” or operates in compliance with an approved capital restoration plan within 90 calendar days of the classification.	Quarterly
1.2(3): Within 90 calendar days of recognition, Matters Requiring Attention (MRA) are resolved or are in the process of being resolved in accordance with a remediation plan acceptable to the FHFA.	90% Quarterly

Means & Strategies

FHFA conducts risk-based examinations and supervision at each regulated entity with the primary goal of ensuring that they operate in a safe and sound manner. Throughout the supervision process, FHFA works with the FHLBanks and OF to resolve identified issues as quickly as possible and, if necessary, develops a corrective action plan that is monitored to ensure its implementation. Findings from the examinations are presented to management and/or to their boards of directors to ensure that changes are made. FHFA makes public the condition of the FHLBanks and the OF through its Annual Report to Congress. To accomplish these measures, FHFA will

- Continue 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 the OF and related risk metrics, reassessing their risk profiles to focus FHFA’s resources on the areas of most concern.

- Continue to monitor developments in the market related to sub-prime and non-traditional mortgage products, non-performing loans, counterparty risk, capital, liquidity, accounting, and internal controls.
- Ensure each FHLBank and the OF meets or exceeds liquidity standards established by FHFA.
- Determine component and composite ratings.
- Prepare reports of examinations and communicate results to the Boards of the FHLBanks and the OF.
- Complete an Annual Report to Congress that includes a report of the Annual Examinations of the FHLBanks.
- Continue efforts to streamline and automate the model bank infrastructure used to evaluate FHLBanks' income projections and consider alternative market risk management strategies.
- 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.
- Revise the OF board of directors to include all FHLBank presidents and independent directors sufficient to establish an independent audit committee of the board.

HERA requires that the Director of FHFA establish capital classifications for the FHLBanks, and establish criteria for each capital classification based on the amount and types of capital held by a FHLBank and the risk-based, minimum, and critical capital levels for the FHLBanks. FHFA's interim final rule Capital Classifications and Prompt Corrective Action (PCA rule) was effective on August 4, 2009, and defines four capital classification categories — adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized — and criteria for each classification.

HERA also gave the FHFA prompt corrective action authority over the FHLBanks by amending the Federal Housing Enterprises Safety and Soundness Act of 1992 (Safety and Soundness Act) so that specific mandatory or discretionary supervisory actions and restrictions under that statute would apply to any Bank determined to be undercapitalized, significantly undercapitalized, or critically undercapitalized. The general purpose for the PCA framework is to supplement the FHFA's other regulatory and supervisory authority and provide for timely and, in some situations, mandatory intervention by the regulator. FHFA will:

- Continue to monitor conditions in the debt markets.

- Prepare reports on financial developments that could affect the overall financial condition, performance, or operations of the FHLBanks.
- Align required regulatory capital levels and capital plan revisions with risk.
- 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.
- 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.

Through on-site examinations, the FHFA identifies significant issues and key risks that could compromise their safety and soundness and develops a supervisory strategy that will address identified deficiencies and risks in an appropriate and timely manner. To accomplish this FHFA will

- Identify risks and significant problems at each of the FHLBanks related to market risk, credit risk, operational risk, governance, internal controls and determine the corrective action(s) needed.
- Communicate these concerns to the FHLBanks' management for establishment of an action or remedial plan subject to FHFA approval.
- Track and monitor progress being made to ensure timely action.
- Verify that actions taken by the FHLBanks adequately correct the issues identified and that such corrective action(s) provide sustainable solutions to address the current and any projected risks.

Verification and Validation

Component ratings are given to each risk area. These ratings are used to determine the final composite rating. The report of examination, which is approved by the Deputy Director for FHLBank Regulation, includes these ratings with written analyses and justifications to support each rating.

The Call Report System automatically and regularly calculates capital compliance. Call Report data and each FHLBanks' filings with the Securities and Exchange Commission (SEC) are used to determine capital compliance. The consistency of financial data

reported in the Call Report System, the combined financial report, and each FHLBank's quarterly report to the SEC are assessed twice yearly.

During the year, FHFA conducts supervisory examination and monitoring activities to ensure that the FHLBanks maintain adequate capital levels. Assessments of market risk and market risk management are developed using risk modeling, market risk exposure, and market risk management evaluations. These assessments are given to capital markets examination staff for use during the examination.

Each MRA with the due date for completion is logged into a tracking system and discussed with the boards of the FHLBanks and Office of Finance. When resolved to FHFA's satisfaction, the MRA is closed and the GSE is notified in writing that they have resolved the concern to FHFA's satisfaction.

Strategic Goal 2:

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 helps 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 Goal 2.1:

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

<u>Measure</u>	<u>Target</u>
2.1(1): Each housing GSE maintain liquidity levels consistent with FHFA regulatory requirements.	Monthly
2.1(2): Absent a revival of the private market in 2010, each Enterprise’s share of single-family mortgage purchases and originations does not decline by more than 10% of the share obtained in FY2009.	Annually

Means & Strategies

Each Enterprise supports the health of the secondary mortgage market through its regular activities in guaranteeing, securitizing, and purchasing mortgage loans and securities. This support tends to reduce the cost of mortgages to the public and promotes sustainable home ownership. If the Enterprises’ market share drops below the trigger, FHFA will seek to determine the reasons for reductions in market share and will determine appropriate corrective actions for strengthening the Enterprises’ support of the secondary mortgage market.

Verification and Validation

Liquidity levels will be verified by examining internal reports from the Enterprises. Data on single-family mortgage purchases and guarantees will be verified through tracking and reviewing information available to FHFA and the public.

Performance Goal 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.

<u>Measure</u>	<u>Target</u>
2.2(1): The FHLBanks’ affordable housing program (AHP) funds are awarded in compliance with laws and regulations.	Annually

- 2.2(2): Issue affordable housing goal regulations covering Fannie Mae, Freddie Mac and the FHLBanks, as applicable, pursuant to HERA. May 1, 2010
- 2.2(3): Issue a Duty to Serve regulation, per HERA, 2008, requiring the Enterprises to serve the manufactured housing and rural housing segments of the housing market and to preserve multifamily affordable housing. May 15, 2010

Means & Strategies

The Bank Act requires each FHLBank to establish an affordable housing program (AHP) to enable members to provide long-term subsidized financing for very-low, low-, and moderate-income owner occupied and affordable rental housing. These subsidies may be in the form of grants or below costs or subsidized interest rates on an FHLBank advance to a member. The Bank Act requires each FHLBank to contribute at least 10 percent of its net earnings from the previous year to the AHP, subject to a minimum annual combined contribution by all 12 FHLBanks of \$100 million. FHFA conducts on-site examinations and visitations of each FHLBank to ensure compliance with AHP regulations.

HERA requires FHFA to establish affordable housing goals for the Enterprises and transitional housing goals for the FHLBanks. The affordable housing goals will establish requirements for the GSEs relative to single-family low-income purchase mortgages, low-income area purchase mortgages, low-income refinance mortgages, very low-income purchase mortgages and low-income multifamily purchase mortgages.

Additionally, FHFA will prepare a report on the Enterprises' activities in the single-family 2 – 4 unit properties segment as well as a report on the Enterprises' activities regarding small multifamily properties, defined as those containing between 5 and 50 units. Also per HERA requirements, FHFA will be adopting a regulation that will impose requirements on the two Enterprises to serve three specific underserved markets: manufactured housing, rural housing and multifamily housing. FHFA will

- Conduct annual AHP examinations and mid-cycle on-site AHP visitations at FHLBanks to ensure program effectiveness as well as compliance with the Bank Act, FHFA regulations, and FHLBank policies.
- Ensure that AHP funds are being disseminated to selected awardees.
- Review affordable housing and community investment examination findings with the FHLBanks semiannually to ensure that the FHLBanks are making progress to remedy identified shortcomings.

- Continue quarterly outreach program with the AHP examination coordinator contacting senior management of his/her assigned FHLBank to discuss any outstanding MRAs and other matters of supervisory concern.
- Collect mortgage purchase loan data and monitor FHLBank performance toward meeting their transitional annual housing goals.
- Analyze mortgage market data to ensure that housing goals reflect market conditions.
- Hold monthly meetings with Fannie Mae and Freddie Mac to discuss progress on affordable goals achievement.
- Increase transparency of mortgage market and Enterprise-related developments by publishing conclusions and findings of FHFA's annual examinations through the Annual Report to Congress.
- Review alternative approaches that further promote affordable housing in a safe and sound manner.
- 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.
- Process new activity/new product submittals from the Enterprises in accordance with the New Activity/New Product final rule.
- Hold Housing and Community Investment Forums with stakeholders in order to increase our civic engagement efforts before and during the rule making process and to solicit public comments about "Duty to Serve."

Verification and Validation

During the second quarter of FY2010, each GSE will submit data tapes and reports to FHFA for review. FHFA will verify the information for accuracy. In addition, FHFA examiners will conduct annual AHP examinations at each of the FHLBanks and will review data submissions and assess the FHLBanks' controls to ensure accuracy of data submissions.

Performance Goal 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.

	<u>Measure</u>	<u>Target</u>
2.3(1):	Expand the quarterly House Price Index (HPI) and related products by producing a median HPI and increasing the number of geographical areas covered.	September 30, 2010
2.3(2):	Publish at least six working papers, mortgage market notes, or research papers.	September 30, 2010

Means & Strategies

During 2010, 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 will publish a variety of data and reports throughout the year to increase the transparency of mortgage market developments, as well as Enterprises' risks and activities. Specifically, FHFA will

- 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 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 a series of reports during the year, required by HERA, that emphasize various aspects of the housing GSEs, their risks and their role in the secondary mortgage market, including a study on guarantee fees, underserved markets,

- Publish 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, the housing GSEs’ loan purchase goals and analysis of the Enterprises’ business models. FHFA is also considering hosting a public symposium on research related to housing, mortgage markets and the Enterprises.

Verification and Validation

Data receipt and publication dates are agreed-to in advance, with publication typically occurring 10 -12 business days after the 7th day of each month. The results are reviewed by the Chief Economist, the Senior Deputy Director & COO and the Director. Performance is verified by publication of results, either as an add-on to an HPI publication or as a standalone article. In either case, the analysis will be provided on FHFA’s website.

Performance Goal 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.

	<u>Measure</u>	<u>Target</u>
2.4(1)	Meet with the President’s Working Group, Federal Housing Finance Oversight Board, Financial Stability Oversight Board (FSOB), the housing GSEs, and other stakeholders quarterly.	100%
2.4(2):	Respond to Congressional inquiries within 15 business days.	90%

Means & Strategies

Communication with stakeholders is key to FHFA's support of an efficient secondary mortgage market. FHFA provides stakeholders with information on the 14 housing related GSEs that include the risks they face, the economic environment in which they operate, and policy issues facing the agency.

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 2010, FHFA will

- Continue its outreach and educational efforts 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 support the Federal Housing Finance Oversight Board, Financial Stability Oversight Board and President's Working Group.
- Meet with other Federal financial regulators to discuss issues related to the regulation of the 14 housing GSEs and the housing finance system. Respond to requests from other Federal agencies for information about housing finance markets and the housing GSEs.
- 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 GSEs, and FHFA's regulatory role.
- 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.
- 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.

- Keep other financial regulators informed about FHFA 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.
- 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.
- 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.
- Continue to respond to Congressional inquiries in a consistent, courteous, accurate, and timely manner and seek 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.
- Continue to have ongoing interaction with Members of Congress, congressional staff, and with staff and policy officials at other federal agencies, with respect to implementing the new authorities to ensure stronger regulation of the Enterprises.

Verification and Validation

Congressional inquiries consist of written or verbal requests for information or assistance from Members of Congress. Responses are typically prepared in writing but may also include a phone call letting the Member know that FHFA is working on the request and may need more time (if the request is complex or requires additional research). The External Relations Specialist reviews the list of Congressional requests and date of the responses made and confirms the count on the number of business days taken to provide responses to Members. The Associate Director for Congressional Affairs confirms all dates and response times before reporting compliance.

Strategic Goal 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.

The conservatorship of Fannie Mae and Freddie Mac allows FHFA to preserve the assets of the Enterprises, ensure they focus on their housing mission and are positioned to emerge from conservatorship financially strong, with operations, controls and risk management that meet or exceed industry standards. 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 while minimizing the Enterprises' credit losses. All of these steps begin to address the serious market issues currently being experienced. FHFA will 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.

<u>Measure</u>	<u>Target</u>
3.1(1): Fill vacancies within 180 calendar days in the Boards and senior management teams.	Quarterly
3.1(2): Receive from the Enterprises and review a complete inventory of assets, partnerships, contracts, and litigation activities.	Quarterly, beginning December 31, 2009

Means and Strategies

In September 2008, due to safety and soundness concerns and market conditions that affected the Enterprises, FHFA placed both Fannie Mae and Freddie Mac under 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. During conservatorship FHFA will

- 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 through the Office of Conservatorship Operations.
- Continue to ensure the GSEs take prompt action to fill key management and Board vacancies with qualified individuals. Continue to evaluate and approve compensation packages that meet FHFA guidelines and promote effective management of the GSEs.
- Continue to monitor capital levels.
- Continue to closely monitor developments in the markets and work closely with the federal banking regulators to work to stabilize each company.
- Establish and then update each quarter a complete inventory of assets and other interests and activities relevant to FHFA’s conservatorship responsibilities. Those inventories should tie to the Enterprise’s quarterly SEC filing beginning with the filing for December 31, 2009.

Verification and Validation

FHFA has identified the key leadership roles at both enterprises, and as part of the Quarterly PARS reporting, the OCO tracks and reports on the current status of the key management position vacancies, if any, and what actions are taken by the Enterprises to fill the positions. The Key identified positions are as follows:

Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Investment Officer, Treasurer, Chief Compliance, Officer, Chief Risk Officer, General Auditor, Head of Operations and Technology, Head of Single-family, Head of Multifamily, Head of Mission, and Head of Human Resources.

Asset inventory will be compared to SEC filings and the company’s books and records.

Performance Goal 3.2

Delegate appropriate authorities to each Enterprise’s management to continue with or improve upon the Enterprises’ mission and their business operations.

Measure

FHFA provides approvals and guidance to the Enterprises on conservatorship-related issues within 30 business days.

Target

80% Quarterly

Means and Strategies

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. Both Enterprises continue fulfilling their missions, under the oversight of the conservator. The Conservatorship Governance Committee was established in July 2009, to guide the information coming into FHFA for action by the conservator. During conservatorship FHFA will

- Ensure the decision making process is timely and appropriately coordinated throughout the agency.
- Provide approvals and guidance to the Enterprises on conservatorship-related issues within 30 days.

Verification and Validation

Records of discussions at meetings are maintained to highlight open issues and deliberations. Recommendations to the Director are completed in accordance within an agreed upon timeframe. Progress is monitored and tracked. Final decisions by the Director as Conservator are communicated to the Enterprises with appropriate records maintained by FHFA.

Performance Goal 3.3

Ensure the Enterprises have effective programs that respond to problems in mortgage markets by reducing preventable foreclosures.

<u>Measure</u> ¹	<u>Target</u>
3.3(1): The Enterprises increase the number of loan modifications to 400,000.	September 30, 2010
3.3(2): Less than 35 percent of modifications are 60-plus days delinquent after the modification.	September 30, 2010

Means and Strategies

Section 110 of Emergency Economic Stabilization Act of 2008 (EESA), titled *Assistance to Homeowners*, charges federal property managers (FPM's) to develop and begin implementing plans that seek to maximize assistance for homeowners and encourage

¹ These measures are established and tracked formally through Performance Goal 3.3, but they also support Performance goal 2.1.

servicers of underlying mortgages to take advantage of certain federal programs to minimize foreclosures. FHFA, as conservator, is a designated FPM. FHFA will submit the required report on loan modifications under this section to Congress every month.

As agents of the U.S. Treasury, both Fannie Mae and Freddie Mac play major roles in and have assumed responsibilities for the implementation and ongoing oversight of the Making Homes Affordable (MHA) program. These roles include:

- Both Enterprises are participating in the program for the loans that they own or guarantee, and they are also participating as administrators on behalf of the Treasury Department for all other loan modifications under this program.
- Fannie Mae, the administrator of the MHA program, has provided guidance to seller/servicers to address loans owned by Fannie Mae and Freddie Mac and those owned by investors in private-label securities.
- Freddie Mac has an audit and compliance role with the MHA program. Freddie Mac is leading reviews of servicers' compliance with the program guidelines and ensuring that noncompliance is reported and handled.

During Conservatorship, FHFA will

- Work with the Enterprises to pursue loan modification activities and other loss mitigation strategies to reduce preventable foreclosures.
- Ensure that the Enterprises, as agents of the U.S. Treasury, carry out their responsibilities as administrators of the MHA program and the audit and compliance roles respectively.
- Track the Enterprises' efforts to prevent avoidable foreclosures through a variety of mechanisms including loan modifications and short sales, and report the information publicly in a monthly Foreclosure Prevention report.
- Track the Enterprises' efforts to assist borrowers through refinances and report the information publicly in a monthly Refinance report.
- Submit a Federal Property Managers report every month on loan modifications to Congress, the FHF Board and the Boards of the Enterprises.

Verification and Validation

Loan modifications are tracked by each enterprise and independently reported on weekly by the U.S. Treasury in their Making Home Affordable Weekly Update. Other measures to verify and validate the current status of loan modifications include:

- Historical Data from MHA Monthly Updates (2 worksheets – HARP and HAMP) – tracks monthly data provided by Treasury and calculates changes.
- Making Home Affordable Weekly Update produced by Treasury.
- HAMP Servicer Integration Dashboard - (produced by FNM) – compares servicers’ reported survey data to data received and accepted by IR2 (system of record).
- HAMP Operations; IR2 Metrics meetings (produced by FNM) – forecasts future modification effective dates as well as expected incentive payments for completed modifications. Also, details volumes by investor.
- Implementation Barrel Chart – Top Level Key Milestones reports (produced by FNM) – results from maintenance of the integrated plan; reports milestones completed and to be completed.

Performance Goal 3.4

Work with the Administration and Congress to develop an effective structure for the Enterprises to emerge from conservatorship.

	<u>Measure</u>	<u>Target</u>
3.4(1):	FHFA will provide technical assistance to Congress and the Administration on various future structures for the secondary mortgage market and for post-conservatorship outcomes for the Enterprises.	Ongoing

Means & Strategies

There are no established pre-conditions for Fannie Mae or Freddie Mac to be removed from conservatorship. FHFA has established a working group to consider options for the future of the country's secondary mortgage market and to work with Congress and the Administration on viable business structures for both GSEs under the assumption they will be removed from conservatorship in the future. FHFA will

- Keep Congress informed of conservatorship activities and future alternative structures for the secondary mortgage market.

Verification and Validation

FHFA will report the results of its analysis in congressional testimony, its annual report to Congress, speeches and meetings with Administration and congressional officials.

Resource Management Strategy:

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

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. With the completion of the agency's new strategic plan, the employees of FHFA are now united under one vision and mission. 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 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 and relies on effective information technology solutions to provide efficient and cost-effective services.

Performance Goal 4.1:

FHFA has a diverse workforce that is highly skilled, highly motivated and results oriented.

	<u>Measure</u>	<u>Target</u>
4.1(1):	FHFA fills vacancies within 80 business days.	70% Quarterly

Means & Strategies

FHFA's workforce is its most valuable resource. FHFA conducts targeted outreach to attract 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.

FHFA hiring practices model OPM standards. In 2010, FHFA will use OPM's End-to-End Hiring Initiative. This initiative outlines an 80-day hiring model which starts with the manager's decision to hire for an open position and ends with the new employee's entry on duty. Included in the 80-day model is the period of time between classifying the position at the appropriate grade, posting the vacancy announcement, reviewing resumes to conduct a qualifications review, panel interviews, selection, pay setting, and the initial offer of employment.

To ensure FHFA effectively manages its most valuable resources, a Strategic Human Capital Plan was published in 2009. The Plan is updated bi-annually and is 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.

In 2010, FHFA will continue to attend job fairs that specifically target minorities, women, and the disabled. Specifically, FHFA will

- Recruit a highly qualified, diverse workforce.
- Continue to review its supervisory program and organizational alignments and make adjustments, as needed, to improve effectiveness. FHFA continues to effectively align staff by utilizing their competencies and skills where they are most needed.
- Concentrate on the retention of skilled, knowledgeable employees, which 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.
- Continue the progress made in narrowing technical and leadership competency gaps. In FY 2010, 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.

- Ensure that employees’ performance results support FHFA’s mission. Individual performance results are linked to FHFA’s annual performance goals, and therefore, monitoring performance is critical to ensuring FHFA’s mission is met. 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.

Verification and Validation

The time it takes to fill vacancies is captured by each Staffing Specialist and verified by the Human Capital Manager for Staffing. Calculations are checked by the Human Capital Manager prior to reporting the results in the quarterly Performance Tracking Report.

Performance Goal 4.2:

FHFA demonstrates a strong commitment to equal employment opportunity that supports diversity in employment, operations and the contracting of services.

	<u>Measure</u>	<u>Target</u>
4.2(1):	Increase the number of qualified disabled, minority, and female job applicants.	5% Annually

Means & Strategies

- OHRM will work closely with the FHFA EEO Director to define a plan of action for increasing the agency’s representation of minorities and women. OHRM has in place a Strategic Recruitment Action Plan that includes outreach activities, such as targeted job fairs, to increase awareness of the agency and its vacant positions.
- The EEO Director will develop a plan to acknowledge diversity through awareness programs within the agency.

FHFA also supports diversity in the contracting of services by encouraging the use of small business, veteran-owned small business, service-disabled veteran-owned small business, Historically Underutilized Business Zone (HUBZone) small business, small disadvantaged business and women-owned small business concerns in its acquisition of goods and services, whether as contractors or subcontractors. To accomplish this performance goal, FHFA will also:

- Finalize a regulation implementing legislation from HERA to promote diversity in employment and contracting during FY 2010.
- Participate in a minimum of two outreach programs to encourage and increase contracting opportunities to small businesses and women and minorities and minority-owned businesses.

Verification and Validation

The Human Capital Manager for Staffing analyzes demographic data for the quarter. Because applicant self-identification demographic data is strictly voluntary, the Office of Human Resource Management may not have demographic data for 100% of the applicants. Analysis is based on the data that has been provided by applicants and supplied in aggregate reports.

Performance Goal 4.3:

FHFA has effective financial and risk management programs.

	<u>Measure</u>	<u>Target</u>
4.3(1):	FHFA's external audits and reviews have unqualified opinions with no material weaknesses or unacceptable risks.	100%
4.3(2):	FHFA net costs per value of the 14 housing GSEs' total book of business.	.000025 percent

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. To support this effort, FHFA will

- Support GAO's FY 2010 audit of FHFA's financial statements and revise agency policies and procedures as necessary to ensure that resources are effectively and efficiently used to achieve agency strategic and performance goals.
- Continue to perform a self-assessment of internal controls over financial reporting (A-123), the effectiveness and efficiency of operations and compliance with

- Implement, as appropriate, new OMB guidelines and initiatives designed to strengthen agency internal controls and improve agency performance.
- Continue to review performance goals to streamline and identify high priority goals that are meaningful and set quantitative outcome-oriented targets.
- Demonstrate progress in achieving agency goals and document performance trends.
- Support the Office of Personnel Management's (OPM) full-scope audit of the management of human resources and delegated examining unit at FHFA, and revise OHRM policies and procedures as necessary to ensure full compliance with OPM requirements.
- Continue to have an independent Federal Information Security Management Act (FISMA) review of its information security program during FY2010. 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 information security monitoring and staff training, and 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.
- Continue to require all agency staff and contractors to take annual Privacy training to ensure the appropriate collection, use, and protection of personally identifiable information.
- Cooperate with external auditors in their efforts to conduct internal reviews of agency activities and promptly respond to any audit findings and recommendations to improve agency operations.
- Continue to work to appropriately size its operations to effectively and efficiently regulate the 14 housing GSEs. This will involve a continual evaluation of how we do business with the goal of seeking ways to do it more effectively and efficiently.

Verification and Validation

The CFO confirms with the Office Director (responsible for the area examined in the audit) that no material weakness has been reported by the auditor.

Performance Goal 4.4:

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

<u>Measure</u>	<u>Target</u>
4.4(1): FHFA's infrastructure systems are continuously available for use by FHFA staff.	99% of the time each quarter
4.4(2): FHFA completes its internal review of Examiner Workstation and finalizes a new strategic plan for Examiner Workstation.	September 30, 2010

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. 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 will

- Develop a significantly revised Information Technology Management Strategic Plan that outlines the goals and objectives needed to support the mission and functions of FHFA. The plan is updated annually and links IT initiatives to the annual performance budget and supports the agency in achieving its long term goals.
- Continue to use the FHFA Investment Review Board (IRB) to make effective and appropriate IT investment decisions. The IRB review ensures a cost-effective allocation of resources for IT capital investments that are consistent with FHFA's Strategic Plan.
- Maintain the FHFA's Enterprise Architecture plan to 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 agency Federal Information Security Management Act (FISMA) major information systems undergo the Certification and Accreditation process in order to establish authority to operate. Certification and Accreditation packages are updated when significant modifications are made or every three years, whichever comes first, as required.
- Continue to support the development and enhancement of Examiner Workstation, an automated supervisory tool that facilitates the examination process and coordinates the supervision activities throughout the Division of Enterprise Regulation and Division of Bank Regulation; promoting information sharing and facilitating the risk rating and examination processes.
- Support the development and implementation of the regulatory economic capital model.
- Continue to support and maintain data repositories and technology tools needed to conduct research and financial analysis, supporting FHFA's analysis of key financial performance and risk measurement factors related to the GSEs.
- 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 continuous monitoring of National Institute of Science and Technology (NIST) 800.53 controls and annual reviews and updates of common controls.
- Ensure all FHFA staff and contractors with system access have completed annual security awareness training
- Maintain a responsive customer service focused Help Desk, ensuring that 95% of trouble calls reported during business hours are responded to within 4 business hours.

Verification and Validation

The Office of Technology and Information Management executes a count of all system, application or user access deficiencies. The Manager for Data Management and Operations is responsible for reporting on this measure from the data collected by the monitoring tool. The Customer Service Manager is responsible for validating the information and calculations.