DRAFT FHFA STRATEGIC PLAN: FISCAL YEARS 2022-2026

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FHFA's Mission, Vision, and Values

Mission

Ensure the regulated entities fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity for equitable and sustainable housing finance and community investment throughout the economic cycle.

Vision

For FHFA's supervisory, regulatory, and mission-related activities to support a reliable, stable, equitable, and liquid U.S. housing finance system.

Values

FHFA's culture is built on a foundation of competence, diversity, equity, and inclusion. Accordingly, FHFA employees emulate the following values:

Fairness	We value varied perspectives and thoughts and treat others with impartiality.
Accountability	We are responsible for carrying out our work with transparency and professional excellence.
Integrity	We are committed to the highest ethical and professional standards to inspire trust and confidence in our work and in one another.
Respect	We treat others with dignity, share information and resources, and collaborate.

About the Federal Housing Finance Agency

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA), amending the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act). The Agency is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae); the Federal Home Loan Mortgage Corporation (Freddie Mac); Common Securitization Solutions, LLC (CSS); and the Federal Home Loan Bank System, which includes 11 Federal Home Loan Banks (FHLBanks) and the Office of Finance (OF), a joint office of the FHLBanks. FHFA's mission is to ensure that Fannie Mae, Freddie Mac, and the FHLBanks (together, the regulated entities[1]) fulfill their mission by operating in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment throughout the economic cycle. Since September 6, 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac (together, the Enterprises).

I. Regulator

The Safety and Soundness Act, as amended by HERA, assigns to FHFA regulatory oversight of the Enterprises and the FHLBank System.[2] The statute vests FHFA with the authorities, similar to those of other prudential financial regulators, to maintain the financial health of the regulated entities. FHFA is responsible for supervising the business and operations of the regulated entities to ensure that they are safe and sound and aligned with the missions set forth in their authorizing statutes. FHFA exercises these regulatory and supervisory authorities by issuing rules, policy guidance documents, and regulatory orders.

The Safety and Soundness Act requires FHFA to fulfill the following duties:

(A) to oversee the prudential operations of each regulated entity; and

(B) to ensure that

i. each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls;

[1] OF is not a "regulated entity" as the term is defined by statute (see 12 U.S.C. 4502(20)). However, for convenience, references to the "regulated entities" in this document should be read to also apply to OF unless otherwise noted.

[2] 12 U.S.C. § 4513.

ii. the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities);

iii. each regulated entity complies with the Safety and Soundness Act and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;

iv. each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with the Safety and Soundness Act and the authorizing statues; and

v. the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest.[3]

II. Conservator

FHFA's authority as both conservator and regulator of the Enterprises is based upon statutory mandates, which include the following conservatorship authorities granted by HERA:

(D) …take such action as may be—

i. necessary to put the regulated entity in a sound and solvent condition; and

ii. appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.[4]

Continuing the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1).

Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of…available programs to minimize foreclosures."[5]

[3] 12 U.S.C. § 4513(a)(1).
[4] 12 U.S.C. § 4617(b)(2)(D).
[5] 12 U.S.C. § 5220(b)(1).

Strategic Goal 1: Secure the regulated entities' safety and soundness

As regulator of the FHLBank System and as regulator and conservator of the Enterprises, FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA uses a risk-based approach to conducting supervisory examinations, which prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations. FHFA will assess the safe and sound operations of the regulated entities through annual examinations, targeted examinations, ongoing monitoring, and off-site reviews, as appropriate. FHFA uses a uniform examination rating system to assign ratings for the FHLBanks, the Office of Finance, CSS, and the Enterprises. FHFA assigns ratings as follows:

1) Composite rating for the overall condition of each regulated entity; and

2) Individual component ratings for Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk (CAMELSO).[6]

FHFA assigns these ratings for each regulated entity on an annual basis.

I. Objective 1.1: Identify risks to the regulated entities and assess the safety and soundness of regulated entity operations

Means & Strategies to achieve the objective include:

1. Conduct risk-focused supervision and examination work, including ongoing monitoring, targeted examinations, onsite reviews, periodic special and horizontal reviews, and annual examinations;
2. Ensure regulated entity compliance with laws and regulations and adherence to financial standards;
3. Conduct diversity and inclusion supervision and examinations and assign ratings;
4. Develop and administer stress and other supervisory tests, as appropriate;
5. Monitor emerging risks, industry trends, supervisory standards, and macro-economic market conditions in order to inform risk assessments and adjust supervisory approaches, when appropriate;

[6] FHFA assigns only individual component ratings for Management and Operational Risk for the Office of Finance and CSS.

6. Ensure the Enterprises establish and maintain standards for sellers, servicers, and counterparties that strengthen the overall functioning and resiliency of the mortgage markets;
7. Issue supervisory guidance, supervisory policies, and regulations to set standards and expectations for safe and sound operation of the regulated entities; and
8. Continue to enhance training and development of examination staff, including through continued implementation of the Housing Finance Examiner commissioning program.

II. Objective 1.2: Require timely remediation of Matters Requiring Attention

Means & Strategies to achieve the objective include:

1. Produce finding memoranda that clearly identify Matters Requiring Attention (MRAs) at the regulated entities;
2. Monitor remediation of MRAs for both timeliness and efficacy;
3. Track the status of MRAs to ensure proper and timely remediation at the regulated entities; and
4. Conduct ongoing monitoring to assess the regulated entities' progress in remediating MRAs.

III. Objective 1.3: Preserve and conserve Enterprise assets while managing the conservatorships

Means & Strategies to achieve the objective include:

1. Provide clear conservatorship expectations to Enterprise boards and management;
2. Develop a readiness framework for the Enterprises;
3. Oversee the Enterprises' implementation of capital plans to achieve regulatory capital requirements;
4. Require the Enterprises to transfer a significant amount of credit risk to private investors; and
5. Require the Enterprises to update their pricing frameworks to enhance safety and soundness while providing enhanced support for core mission borrowers.

IV. Objective 1.4: Identify options for incorporating climate change into regulated entity governance

Means & Strategies to achieve the objective include:

1. Conduct research on the risks and effects of climate change on the housing finance system;
2. Build on experiences with natural disaster response to ensure prioritization of climate change at FHFA and the regulated entities; and
3. Improve climate data collection, analysis, and reporting.

Strategic Goal 2: Foster housing finance markets that promote equitable access to affordable and sustainable housing

Improving affordable housing opportunities and supply for homebuyers and renters – particularly the underserved – is an Agency priority. FHFA also has the statutory obligation to ensure that the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets. FHFA is committed to equitable access to the regulated entities' financial services by qualified institutions and borrowers. Additionally, FHFA will continue to promote transparency and market stability by monitoring and reporting on trends in housing and mortgage markets, such as trends in house prices, guarantee fees, and borrower sentiment.

I. Objective 2.1: Promote sustainable access to mortgage credit

Means & Strategies to achieve the objective include:

1. Monitor the Enterprises' efforts to identify specific actions to increase and preserve sustainable mortgage purchase and refinance credit for all qualified borrowers, with additional focus on low- and moderate-income families, communities of color, rural areas, and other underserved populations;
2. Oversee the Enterprises' statutory mission obligations under the Affordable Housing Goals and Duty to Serve requirements;
3. Ensure the FHLBanks continue to provide advances in a safe and sound manner in support of member liquidity and to comply with Affordable Housing Program (AHP) and Community Investment Program (CIP) statutory requirements;

4. Ensure the FHLBanks serve each state in their district under the AHP and CIP programs and the FHLBanks' Community Lending Plans identify and seek to fulfill the needs of communities throughout the district, including tribal communities;
5. Continue to ensure sustainable loss mitigation; and
6. Monitor the Enterprises' efforts to ensure a level playing field for small and large sellers.[7]

II. Objective 2.2: Advance equity in housing finance, including through compliance with fair lending laws and regulations

Means & Strategies to achieve the objective include:

1. Promote fair and equitable treatment of mortgage borrowers and sustainable housing opportunities;
2. Oversee the Enterprises' implementation of Equitable Housing Finance plans and ensure the Enterprises take meaningful actions to achieve the goals and objectives in the plans;
3. Conduct equity and fair lending assessments, as well as targeted examinations for fair lending compliance, on the regulated entities' policies, products, and initiatives;
4. Ensure that the regulated entities maintain effective fair lending programs that identify, assess, monitor, and mitigate fair lending risk and prevent the occurrence of fair lending violations; and
5. Publish data and analysis on fair lending, fair housing, and equity topics.

III. Objective 2.3: Serve as a reliable source of information and analysis on the state of housing finance markets and related issues

Means & Strategies to achieve the objective include:

1. Analyze and publish trends in house prices and the risk characteristics of mortgages;
2. Publish data on the affordability of Enterprise-backed rental units;
3. Conduct and publish research on issues affecting housing and financial markets;
4. Conduct and lead forums on relevant housing finance issues; and
5. Promote use of FHFA data products.

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[7] An entity in the lending process that is the ultimate seller of a mortgage loan to an Enterprise is referred to as a "seller."

IV. Objective 2.4: Facilitate greater availability of affordable housing supply, including affordable rental housing

Means & Strategies to achieve the objective include:

1. Oversee Enterprises' implementation of initiatives to increase the supply of housing affordable for low- and moderate-income households;
2. Continue to explore opportunities to further increase the number of 2–4-unit properties and manufactured housing and accessory dwelling units; and
3. Monitor the Enterprises' support of multifamily housing needs with a focus on affordable, underserved, and workforce segments of the market.

V. Objective 2.5: Support leveraging of technology and data to further promote efficiency and cost savings in mortgage processes

Means & Strategies to achieve the objective include:

1. Explore modernizing the single-family appraisal process to foster efficiency in mortgage markets, and address barriers to equitable valuation;
2. Explore opportunities to leverage non-traditional data, alternative approaches, and new technology in the mortgage underwriting process;
3. Continue implementation of the final rule on the validation and approval of third-party credit scores model(s) that can be used by the Enterprises; and
4. Research and explore opportunities for further incorporation of financial technology (Fintech) in activities of the regulated entities and other mortgage market participants.

Strategic Goal 3: Responsibly steward FHFA's infrastructure

FHFA is dedicated to fostering a high-performing culture that exemplifies the Agency's values and supports its work through effective and efficient management of its resources and infrastructure. FHFA's infrastructure is inclusive of all people, tools, resources, and programs that provide support for its mission.

Success in meeting FHFA's mission and goals requires empowered and supported staff and prudent business practices. Responsive, resilient, and efficient information technology (IT) capabilities are also essential to FHFA's ability to accomplish its mission. FHFA employs internal controls and performance information to ensure that resources are managed responsibly.

In addition, the Agency integrates diversity, equity, and inclusion in all employment, management, and business activities at FHFA.

I. Objective 3.1: Cultivate a high-performing, diverse, accountable, and engaged workforce

Means & Strategies to achieve the objective include:

1. Develop and implement a dynamic Agency Human Capital Strategic plan to recruit and retain a high quality, inclusive workforce;
2. Encourage employee development through training, opportunities for career growth, and leadership development;
3. Leverage strategic tools, policies, and services to support the long-term effectiveness of a diverse, inclusive, accountable, and engaged workforce; and
4. Foster a workplace culture of dignity, inclusiveness, and respect that exemplifies FHFA's values.

II. Objective 3.2: Ensure efficient and effective stewardship of Agency resources

Means & Strategies to achieve the objective include:

1. Enhance Agency planning to ensure that resources for the Agency's core functions are available when needed;
2. Track the Agency's use of its resources, and identify opportunities to improve outcomes and control costs; and
3. Continue to enhance internal controls.

III. Objective 3.3: Deliver high-quality support services that promote the Agency's mission effectiveness and safeguard the Agency's infrastructure

Means & Strategies to achieve the objective include:

1. Develop and implement multi-year plans, including an IT Strategic Plan, that coordinate the delivery of internal services with FHFA's strategic needs;
2. Ensure the ongoing quality and reliability of internal support services;

3. Invest in FHFA's infrastructure to support effective and efficient operations across the Agency;
4. Identify and address operational risks to the Agency, including cybersecurity risks; and
5. Safeguard Agency information technology while engaging with other government and private sector stakeholders on initiatives to identify and address cybersecurity risks to the financial sector.

Challenges and Risks that May Hinder Achievement of Strategic Goals

FHFA faces a series of economic and environmental factors that could influence the Agency's success in achieving its goals and objectives. These factors include the unpredictable path of the COVID-19 pandemic, a changing interest rate environment, supply-side constraints affecting housing affordability, and persistent climate change.

As the country emerges from the pandemic, there is uncertainty about the long-term effects on the economy and housing finance markets. A significant resurgence of COVID-19 could stress the financial markets, mortgage markets, and the regulated entities. Prior to the pandemic, house prices were growing at a moderate rate, mortgage interest rates were stable, yet housing inventory was low. Almost two years after the onset of the pandemic, house price growth has been historically high, fueled by low mortgage interest rates and low inventories of homes for sale.

Mortgage interest rates have increased from their pandemic lows and are expected to increase over the next two years. In a rising interest-rate environment, mortgages tend to prepay more slowly and the expected amount of time that mortgages remain outstanding increases. The reduction in prepayments typically results in lower net amortization income at the Enterprises, while the increase in the expected life of the mortgage portfolio generally increases the expected impairment and provision for credit losses. Higher mortgage rates could negatively affect new borrower affordability if the inventory of homes for sale remains tight. At the FHLBanks, rising rates have mixed effects on income from mortgage assets, but generally tend to increase the yields earned on invested capital.

The Agency's ability to affect the supply of affordable housing for low- and moderate-income households is limited, and the market is constrained by shortages. Both labor shortages and materials supply-side challenges reduce the affordability of new housing construction and the renovation of existing housing. Carpenters, plumbers, and electricians were in short supply prior to the pandemic, and the shortage is worse now. Notable materials shortages during 2021 included framing lumber, oriented strand board, and plywood. Shortages of labor and materials directly translates into higher prices of new and renovated housing.

Another challenge will be to ensure that external events do not negatively affect staff productivity and morale. FHFA staff have been exceptionally resilient over the past two years while addressing the economic impacts of the pandemic, leveraging lessons learned from prior crises to ensure that families, both homeowners and renters, were able to safely remain in their homes. As the country emerges from the pandemic, the Agency will continue to prioritize the safety of its workforce and infrastructure.

Persistent climate change could be a source of shocks to the financial system in the years ahead. Disaster events such as hurricanes, wildfires, and floods could increase credit risk and credit-related expenses at the regulated entities. A scenario of multiple simultaneous disaster events could stress the regulated entities and their business counterparties who service mortgages and insure property. Natural disasters tend to disproportionally impact the affordable housing stock, and in an economic environment with the high labor and materials costs, rebuilding affordable housing would be a significant challenge.

The regulatory environment could also affect FHFA's ability to achieve its strategic goals. FHFA does not currently possess the power to examine important counterparties of its regulated entities, such as nonbank servicers. This could interfere with FHFA's ability to ensure the safety and soundness of the regulated entities and the resilience of the nation's mortgage markets.

Strategic Planning Process

FHFA utilized a collaborative process across the Agency to develop the FHFA Strategic Plan: Fiscal Years 2022 – 2026. With guidance from the Director, FHFA executives, managers, and subject matter experts worked together to establish and refine the strategic goals and objectives in this Strategic Plan.

To monitor FHFA's progress in implementing the Agency's Strategic Plan, quarterly performance measure status reports are provided to FHFA senior managers. FHFA also uses regular management meetings, reports, and performance review meetings to communicate and discuss organizational goals and objectives. FHFA employees align their job performance plans and individual development plans to support FHFA's strategic goals.

Consultation and Outreach

FHFA invited input from Congress, stakeholders, and the public on the FHFA Strategic Plan: Fiscal Years 2022 – 2026 through a posting on the Agency's website over a 30-day period.