

# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT



## FY 1999 PERFORMANCE REPORT

MARCH 31, 2000

## **DIRECTOR'S MESSAGE**

Fiscal year 1999 marked a turning point for the Office of Federal Housing Enterprise Oversight (OFHEO). A number of important milestones were met and OFHEO implemented new initiatives to strengthen its ability to monitor both the safety and soundness of Fannie Mae and Freddie Mac and the broader mortgage markets.

In FY 1999, OFHEO met or exceeded 16 of its 18 stated Performance Goals. The remaining two – analysis of public comment on the risk-based capital regulation and streamlining the risk-based capital calculation process – were delayed to ensure greater understanding of OFHEO's proposed rulemaking and will be concluded with the finalization of the risk-based capital rule in the near future.

In March, OFHEO published its much-anticipated risk-based capital proposal. As Director, my number one priority is to bring the rulemaking process to a conclusion and publish a final risk-based capital rule which allows the Enterprises the flexibility needed to operate their businesses while closely matching capital to risk. It will truly represent state-of-the-art risk-based capital regulation.

In FY 1999, OFHEO also completed its first comprehensive risk-based examination of the Enterprises – incorporating credit risk, market risk, operations risk, and corporate governance. This premier examination program replaces the initial targeted examinations conducted by OFHEO.

While important, these successes are only the beginning of OFHEO's ongoing commitment to fulfilling its statutory mission.

To better understand the impact of market developments on the Enterprises, I am strengthening OFHEO's research and analysis capabilities. With a thorough understanding of the Enterprises' activities and changes in the mortgage industry, we can better assess how those changes impact the Enterprises. Any changes in risk to the Enterprises will then be incorporated into our regulatory program. In addition, OFHEO will be able to provide policymakers with sound and authoritative research on the policy implications of developments in the industry.

OFHEO is also making an expanded investment in its examination program. Building on the strength of its first comprehensive risk-based examination, I am expanding our examination staff and providing them with the tools they need to comprehensively monitor the Enterprises. This is important because to truly appreciate the interplay between the Enterprises' financial activities and operations, I need the capacity to consider capital adequacy as an integrated part of any safety and soundness assessment. This will be achieved by adding new examiners and arming them with the latest technology to monitor the continually expanding application and sophistication of automation and risk management tools to all the Enterprises' products and business activities.

In conclusion, this is truly an exciting time at OFHEO. As we move into the next stage of the mission Congress laid out for us, I am determined to continue to ensure that OFHEO is a strong and capable regulator. I look forward to another successful year for OFHEO, the Enterprises, the entire secondary mortgage market, and ultimately, the consumer who benefits from our collective work.

Armando Falcon, Jr.  
March 31, 2000

## **FY 1999 Performance Report**

### **OFHEO's Mission Statement**

*OFHEO effectively protects the interests of the American taxpayer and contributes to the strength and vitality of the nation's housing finance system through independent and fair safety and soundness regulation of Fannie Mae and Freddie Mac.*

### **Introduction**

The Office of Federal Housing Enterprise Oversight ("OFHEO" or the "Office") was established as an independent office within the Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). The Office is headed by a Director appointed by the President for a five-year term.

OFHEO is charged by law to ensure the capital adequacy and financial safety and soundness of two government-sponsored enterprises ("GSEs" or the "Enterprises") – Fannie Mae and Freddie Mac. OFHEO is funded through assessments on Fannie Mae and Freddie Mac. Thus, OFHEO's operations represent no cost to the taxpayer.

Fannie Mae and Freddie Mac are the nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders, and either hold these mortgages in their own portfolios or repackage them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers. Combined assets and off-balance sheet obligations of Fannie Mae and Freddie Mac were \$2.2 trillion at the end of December 1999.

### **FY 1999 Performance Plan and Report**

OFHEO primarily accomplishes its mission by conducting examinations of the Enterprises and by assessing their capital adequacy. These broad objectives may be difficult to quantify and measure for three primary reasons: First, OFHEO regulates two institutions, not hundreds or thousands. Thus, measuring the Office's performance against its goals by reference to changes in the percent of institutions that meet a standard is not very meaningful for OFHEO.

Second, OFHEO continues to develop its complete regulatory framework. Because of this, many of OFHEO's strategies and objectives focus on developing, implementing and reengineering certain activities and capabilities, rather than eliminating them.

Third, OFHEO's role as a regulator, among other things, is to establish, monitor and implement regulations that will ensure that both Enterprises are adequately capitalized and operate in a safe and sound manner. It is these activities and the strategies and processes used to develop and implement them that are included in OFHEO's Annual Performance Plan. Hence, OFHEO's overall performance can best be measured by whether its actions result in safe and sound operations and adequate capital levels at each Enterprise.

Currently, OFHEO is using the minimum capital standard to determine capital adequacy. OFHEO's top priority is to complete the risk-based capital regulation, which will enable the Office to also apply a risk-based capital standard to the Enterprises to determine capital adequacy. Once completed, the stress test will produce a risk-based capital level for each Enterprise and a valuable, measurable regulatory tool. Recognizing how significant this task is to continued effective oversight of the Enterprises, OFHEO elevated completing the stress test, issuing the risk-based capital regulation in final, and subsequently implementing it -- activities which might otherwise be viewed as strategies themselves -- to the strategic objective and performance goal levels when developing both its Strategic and Annual Performance Plans. During FY 1999, OFHEO did not conduct any performance evaluations.

### **Mortgage Markets and the Enterprises in FY 1999**

This has been an important year for OFHEO, as it monitors and assesses the dynamics of the Enterprises and the secondary and primary mortgage markets. Automation is quickly changing the way the industry operates from top to bottom. This automation—along with the new activities and growth of Fannie Mae and Freddie Mac—is blurring the lines between the primary and secondary mortgage markets. These trends are very likely to continue as the Enterprises search for new opportunities to meet their stated financial goals of continued strong earnings growth. Through its examinations, capital assessments, and research and analysis, OFHEO has and will continue to provide oversight in these areas as the Office carries out its mission.

FY 1999 was a year of tremendous growth for the Enterprises. The amount of mortgages on which the Enterprises are exposed to credit risk has increased to over \$2 trillion. During the four quarters ending in September 1999, the combined amount of the Enterprises' retained mortgage portfolios grew by nearly 40 percent to over \$820 billion. In addition to credit risk, the Enterprises are exposed to interest rate risk from their retained mortgage portfolios.

To take advantage of the reduced volume of long-term Treasury securities in the market, the Enterprises developed new debt instruments—Fannie Mae Benchmark Notes and Freddie Mac Reference Notes—that closely resembled the characteristics of Treasury debt. With outstanding amounts of these debt instruments totaling over \$160 billion at the end of FY 1999, market participants are increasingly using Enterprise debt as “benchmarks” against which other securities are measured, supplanting the role that Treasury securities have traditionally played in the global market.

During FY 1999, the Enterprises' market share of residential mortgage debt increased by eight percent. As of June 30, 1999, Fannie Mae and Freddie Mac held in portfolio or guaranteed in the form of mortgage-backed securities 40 percent of the \$4.9 trillion in total residential mortgage debt outstanding, up from 37 percent of total residential mortgage debt outstanding in June 30, 1998.

FY 1999 was also a watershed year for the accessibility and use of technology-based risk-assessment tools in the mortgage market. In FY 1999, the Enterprises broadened the availability of technology-based lending tools, making automated underwriting tools available on the internet to lenders and mortgage brokers. These developments continue to have a major impact on the housing and capital markets and will ultimately foster efficiencies in the industry.

This year, the Enterprises also continued to explore flexible underwriting standards by looking farther out the credit spectrum when buying loans for their portfolio. While these loans are a *de minimus* share of their FY 1999 volume, the Enterprises are continuing to explore them in conjunction with achieving their statutory mission of increasing the availability of financing for the housing market and prudently managing the associated credit risk. OFHEO will continue to assess the risks associated with these loans, how the Enterprises manage that risk, and set capital at an appropriate level.

As the new millenium approached, OFHEO closely monitored the Enterprises as they effectively managed their Year 2000 conversion, ensuring that they and their counterparties and suppliers were Year 2000 compliant.

### **Managing and Measuring Performance**

During the year, OFHEO managers maintained ongoing communications about their progress in achieving OFHEO's performance goals. They also documented progress formally on a quarterly basis. In virtually all cases, senior management was aware of progress toward achieving performance goals in real time--before the quarterly report was prepared.

During the fiscal year, OFHEO's then Acting Director was able to reallocate resources in a timely manner to address issues as they arose. For example, when OFHEO extended the comment period for the Notice of Proposed Rulemaking (NPR) for the risk-based capital standard (see Performance Goal 1.1(a)), additional resources were needed to respond to complex and sophisticated inquiries during the comment period. These additional resources were diverted from OFHEO's efforts to streamline the risk-based capital calculation process (Performance Goal 1.1(d)). Although OFHEO made substantial progress in this area, the goal was not met. Because OFHEO's appropriation is for a single account, and management has access to real-time budget information, management was able to redirect resources in a timely manner.

For FY 1999, OFHEO's enacted appropriation level of \$16 million was a 3.4 percent reduction from its request level of \$16.5 million, and held OFHEO constant at the FY 1998 level. In revising the FY 1999 Performance Plan, OFHEO did not eliminate any performance goals. The Office noted that OFHEO would adjust its efforts during the year to best accomplish them, although the breadth and depth of resources and expertise that OFHEO could devote to achieving each goal would be lessened. In the future, OFHEO's ability to meet planned performance goals will be compromised without full funding.

OFHEO's staff is its most valuable resource. The Office relies on those with cutting edge professional skills and a breadth and depth of knowledge in their fields. Their technical competence, effective teamwork and focused performance are crucial to OFHEO's achieving its goals. OFHEO continued to attract and maintain a high performance workforce. At the end of FY 1999, on board staffing was seven percent higher than at the start of the fiscal year. OFHEO's ability to achieve its mission and keep pace with the Enterprises is highly contingent on attracting and retaining personnel with appropriate skills.

**Strategic Goal 1:** To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

The statutory duty of the Director of OFHEO is to “ensure that the Enterprises are adequately capitalized and operating safely.” OFHEO was given two primary regulatory tools to accomplish these statutory responsibilities. The first is the authority to develop and enforce capital standards for the Enterprises. In FY 1999, OFHEO made public its proposed regulation for the risk-based capital standard, which is expected to be published as a final rule during FY 2001. The second regulatory tool is the authority to conduct safety and soundness examinations of the Enterprises’ operations. In FY 1999, OFHEO finished its first annual (calendar year 1998) comprehensive risk-based examination of the Enterprises and completed most of the work toward its calendar year 1999 examination. OFHEO identified five strategic objectives with supporting performance goals for FY 1999 that will enable the Office to reach this strategic goal. OFHEO’s progress in achieving these performance goals is described below.

**Strategic Objective 1.1:** To issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.

**Performance Goal 1.1(a):** To publish Notice of Proposed Rulemaking (NPR) for risk-based capital by the end of the second quarter.

Performance Measure: NPR in *Federal Register* by end of second quarter.

Target: By end of second quarter.

**Actual Performance:** Goal met.

OFHEO published the NPR for the risk-based capital requirement for public comment in early April 1999. This NPR explains the methodology that OFHEO intends to use to implement the risk-based capital standard established in its authorizing statute. The proposed regulation specifies the risk-based capital stress test that will be used to determine the amount of capital an Enterprise is required to hold to maintain positive capital throughout a 10-year period of economic stress. This was the second NPR for risk-based capital, the first having been published in June 1996, with a comment period that closed in September 1996. This second NPR was published in early April 1999. This minor delay beyond the end of the second quarter target resulted from an extension of the OMB inter-agency review process; it will have a *de minimus* effect on the ultimate publication of a final rule on risk-based capital. In OFHEO’s judgement, the goal was met.

**Performance Goal 1.1(b): To maximize the understanding of the stress test and public participation in the rulemaking process.**

Performance Measure: Number of comments received on the NPR.

Target: Greater than 18. (The number of comments received on OFHEO's first NPR on risk-based capital).

**Actual Performance:** Goal met.

OFHEO received nearly 2,000 pages of substantive comments submitted by over 35 commenters on the risk-based capital proposal when the comment period closed on March 10, 2000.

During FY 1999, OFHEO conducted an extensive effort to respond to informational requests and to make information about the proposed regulation generally available to the public. Within the first two months after the NPR was published in the *Federal Register* in April 1999, OFHEO briefed and made presentations to 31 stakeholders or groups of stakeholders. OFHEO continued to conduct additional briefings through the rest of the fiscal year. These stakeholders included the Enterprises (the regulatees), industry representatives from the housing and banking sectors, the mortgage market, the secondary mortgage market, affordable housing groups, the investment community, other Federal agencies, members of Congress and their staffs and the public. OFHEO responded to its many inquiries about the NPR, disseminated supplementary information on its website, and published notice of the electronic dissemination in the *Federal Register*. OFHEO also devoted substantial attention to responding to technical inquiries of several stakeholders.

Because this is an important and complex regulation that will affect how the mortgage industry and other interested parties view the relationship between risk and capital, during FY 1999, OFHEO extended the comment period twice, after considering the requests from several commenters. These extensions, which lengthened the original four-month comment period to 11 months, provided ample opportunity for all interested parties to analyze the proposal and submit their comments so that OFHEO can move toward implementation of the final rule. These extensions themselves furthered the achievement of the Performance Goal—maximizing the understanding of the stress test and public participation in the rulemaking process.

**Impact on Future Plans:**

OFHEO modified its FY 2000 Performance Plan to incorporate this Performance Goal and measure.

**Performance Goal 1.1(c): To analyze public comments on the risk-based capital regulation (NPR1 and NPR2).**

Performance Measure: Brief Congress periodically on status of plan to publish final risk-based capital regulation.

Target: September 1999.

**Actual Performance:** This goal was not met because other actions were taken to better achieve the strategic objective.

As described above, based on requests from potential commenters, OFHEO extended the comment period until March 10, 2000. Although OFHEO began analyzing issues that were raised during briefings and questions of stakeholders on the NPR, until the comments are received and OFHEO is able to analyze them, it would be premature to develop a plan to publish the final rule.

OFHEO briefed various Members of Congress and their staffs on the proposal and the extended comment period.

**Impact on Future Plans:**

OFHEO incorporated this performance goal in its FY 2000 plan—analyzing comments and developing a plan for publishing the final rule.

**Performance Goal 1.1(d): To streamline the risk-based capital calculation process.**

Performance Measure: Reduce time from receipt of Enterprise data to calculation of risk-based capital requirement.

Target: Reduction of 50 percent from benchmark calculated at the end of FY 1998.

**Actual Performance:** Although substantial progress was made toward achieving this goal, it was not met.

OFHEO completed several of the steps necessary to streamline the risk-based capital calculation process. OFHEO completed documentation of the version of the Financial Simulation Model that was used in the proposed risk-based capital stress test. OFHEO also completed the rules for standardizing the data and database structures for single family and multi-family loan data in the Data Warehouse. The Data Warehouse is the repository for Enterprise data used by the Financial Simulation Model for the risk-based capital stress test and for the surveillance and monitoring component of the examinations program.

After OFHEO extended the comment period on the NPR, to effectively respond to sophisticated inquiries about the NPR from interested parties, OFHEO diverted resources from achieving this performance goal. In developing the FY 1999 Performance Plan and later revising it after



OFHEO's budget request was reduced in the appropriations process, OFHEO did not fully anticipate the extension of the comment period or the scope of the questions that resulted. OFHEO diverted considerable resources to addressing these questions in order to further the goal of maximizing understanding and public participation (Performance Goal 1.1(b)). This will enable OFHEO to achieve its strategic objective—to issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.

**Impact on the Future:**

OFHEO will continue to streamline the risk-based capital calculation process. During FY 2000, OFHEO will complete development of the data warehouse structures necessary to operationalize the stress test. OFHEO is reassessing the appropriateness of this performance measure and will adopt a qualitative measure for this goal in the future.

**Strategic Objective 1.2      To require the Enterprises to meet applicable capital standards.**

**Performance Goal 1.2(a):      To require the Enterprises to meet applicable capital standards on at least a quarterly basis.**

Performance Measure:      Comparison of actual capital to required capital standard on at least a quarterly basis.

Target:      Ratio of 1 or greater.

Performance Measure:      Percent of time acceptable capital plans are obtained from the Enterprises when standards are not met.

Target:      100 percent.

**Actual Performance:**      Goal met.

For each quarter of FY 1999, both Fannie Mae and Freddie Mac were adequately capitalized. OFHEO is statutorily required to determine capital adequacy of the Enterprises on the basis of both minimum and risk-based capital standards. For FY 1999, only the minimum capital standard was applicable. Minimum capital represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. For purposes of minimum capital, an enterprise is considered adequately capitalized if core capital — common stock; perpetual non-cumulative preferred stock; paid-in capital; and retained earnings — equals or exceeds minimum capital.

**FY 1999 Minimum Capital Classification  
(dollars in millions)**

***Fannie Mae***

	12/98	3/99	6/99	9/99
Actual Capital	15,465	16,153	16,690	17,222
Required Capital	15,334	15,837	16,465	17,100
Surplus (Deficit)	131	316	225	122
Ratio (Actual/Required)	1.01	1.02	1.01	1.01

***Freddie Mac***

	12/98	3/99	6/99	9/99
Actual Capital	10,715	10,941	11,358	12,048
Required Capital	10,333	10,595	11,061	11,659
Surplus (Deficit)	382	346	297	389
Ratio (Actual/Required)	1.04	1.03	1.03	1.03

During FY 1999, the Enterprises successfully managed to their minimum requirement. For each quarter, each Enterprise held between \$122 million to \$389 million more capital than their minimum requirement, with ratios of actual to required capital ranging from 1.01 to 1.04. OFHEO makes the minimum capital determinations after the Enterprises complete their quarterly reconciliation and submit data to OFHEO for review. The final determinations for the quarters ending in June and September of 1999 are made in FY 2000.

**Impact on Future Plans:**

This performance goal is a key indicator of the financial safety and soundness of the Enterprises. OFHEO will continue to maintain this performance goal in future Annual Performance Plans. As for FY 1999, OFHEO will continue to use the minimum capital requirement. Once the proposed risk-based capital regulation is final, OFHEO will also use the risk-based capital standard as an additional measure of achieving this performance goal. OFHEO's risk-based capital standard is the amount of total capital that an Enterprise must hold to absorb projected losses flowing from future severe interest-rate and credit-risk conditions, plus a statutorily mandated additional 30 percent to cover management and operations risk.

**Strategic Objective 1.3: To implement a comprehensive, risk-based examination of each Enterprise to ensure that each operates in a safe and sound manner.**

**Performance Goal 1.3(a): To complete a comprehensive, risk-based annual examination for each Enterprise for CY 1998.**

Performance Measure: Deliver the CY 1998 report of examination to each Board of Directors.

Target: February 1999.

**Actual Performance:** Goal met.

As described in OFHEO’s 1999 Report to Congress, the CY 1998 examination, which was completed during FY 1999, found both Enterprises financially sound and well-managed. In each of the 10 program areas, both Enterprises exceeded safety and soundness standards. OFHEO finished fieldwork by the end of the calendar year, and delivered the Report of Examination to each Board of Directors by the target date.

This was OFHEO’s first comprehensive risk-based examination. Although the Office conducted annual examinations of the Enterprises in prior years, for the CY 1998 examination, OFHEO implemented a new, comprehensive risk-based approach. There are four risk areas that comprise the examination--credit risk, market risk, operations risk, and corporate governance. These risk areas contain 10 program areas (such as interest rate risk, liquidity management, and information technology) for which examination objectives are determined annually and updated quarterly. OFHEO’s 1999 Report to Congress describes OFHEO’s CY 1998 findings in these areas.

**Performance Goal 1.3(b): To conduct a comprehensive, risk-based annual examination for each Enterprise for CY 1999.**

Performance Measure: Develop and communicate CY 1999 examination strategies and objectives to the Enterprises.

Target: January 1999.

**Actual Performance:** Goal met.

During the four quarters of CY 1998, OFHEO developed the examination strategies and objectives for the CY 1999 examination and communicated them to the Enterprises before the start of the calendar year. As an ongoing part of the examination process, OFHEO discussed interim findings and conclusions with the Enterprises.

**Performance Goal 1.3(c): To conduct surveillance and monitoring, risk assessment, and analysis.**

Performance Measure: Prepare and issue surveillance and monitoring reports internally.

Target: At least quarterly.

**Actual Performance:** Goal met.

Each quarter, OFHEO prepares surveillance and monitoring reports to assess the condition and performance of the Enterprises. These analytical reports are for internal use and cover the business activity, asset/liability management, asset quality, capital, earnings, and market indices for the Enterprises.

During FY 1999, OFHEO also developed an automated surveillance and monitoring system that will use data from the Data Warehouse, the repository of Enterprise data, to support the examination function in evaluating Enterprise risks. These automated reports correspond to the examination risk areas, and will be useful in further refining the analysis of the Enterprises' condition and performance. OFHEO has also designed reports to assess the systemic risks, such as economic, housing and mortgage market developments, to the Enterprises.

**Strategic Objective 1.4: To ensure that the Enterprises respond appropriately to examination findings.**

**Performance Goal 1.4(a): To promote timely responses and corrective measures for findings in the examination that warrant follow-up.**

Performance Measure: Percent of examination findings identified for follow-up and discussed in the annual Report of Examination that are not being appropriately addressed.

Target: 0 percent

**Actual Performance:** Goal met.

Throughout the examination, the Office maintained continuous dialogue between OFHEO's examination personnel and the Enterprises. Through routine discussions during the examination process and regular meetings with senior Enterprise representatives, OFHEO explained its position and sought input on its findings. As a result, OFHEO fostered prompt response to any potential concerns, issues or opportunities identified to enhance the Enterprise's operations.

<b>Performance Goal 1.4(b):</b>	<b>To communicate examination conclusions to the Boards of Directors and require their appropriate response, including any directives provided to the Enterprises' management.</b>
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Performance Measure: Obtain response from Boards of Directors to conclusions shared in the annual Report of Examination.

Target: Within 30 days of the Board meeting date, subsequent to the issuance of the annual Report of Examination.

**Actual Performance:** Goal met.

OFHEO met with the Board of Directors at each Enterprise to discuss the conclusions in the annual Report of Examination at the first regularly scheduled board meeting after the report's issuance. The Boards responded in a timely manner.

<b>Performance Goal 1.4(c):</b>	<b>To enhance the effectiveness of communications between OFHEO's examination staff and Enterprise officials.</b>
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Performance Measure: Survey the Enterprises on qualitative aspects of the examination program.

Target: Achieve a "high" performance level for the quality of communications with the examination staff, using the survey's rating scale.

**Actual Performance:** Goal met.

During FY 1999, OFHEO conducted its first survey to solicit qualitative feedback from the Enterprises regarding the effectiveness of the examination program and the quality of communications. The survey addressed topics such as the timeliness and interactive nature of communications, the customization of the risk-based examination to the Enterprise's risk profile, and the results-oriented nature of the recommendations. The survey results exceeded the target performance level. OFHEO will continue to evaluate surveys conducted by other federal regulators, other federal organizations as well as those used by certain private sector entities, to enhance the survey.

**Strategic Objective 1.5:** To ensure that future changes in risk do not impair the ability of the Enterprises to perform their missions in a safe and sound manner.

**Performance Goal 1.5(a):** To ensure that new programs do not risk significant deterioration of the Enterprises' financial conditions.

Performance Measure: Number of new programs approved which cause significant deterioration of the Enterprises' financial conditions.

Target: Zero.

**Actual Performance:** Goal met.

During FY 1999, the Department of Housing and Urban Development did not identify any new programs for OFHEO's safety and soundness review. The Enterprises did, however, introduce a number of new products and activities, which OFHEO continues to monitor and evaluate for potential safety and soundness implications.

**Performance Goal 1.5(b):** To ensure that OFHEO is knowledgeable of all the relevant risks for safety and soundness that impact the Enterprises.

Performance Measure: In-depth profiles for Enterprises that incorporate a comprehensive assessment of the risks (both from the business operations and the external operating environment) that pose a potential concern for financial safety and soundness.

Target: Quarterly.

**Actual Performance:** Goal met.

During FY 1999, OFHEO combined its internal resources and findings to make a comprehensive evaluation of risks quarterly. OFHEO relied on its quarterly risk assessments, wrote internal analytical updates, research and policy papers in excess of its planned three per quarter, published the House Price Index on a quarterly basis, and published OFHEO's 1999 Report to Congress. This report detailed the activities of the Enterprises and the trends in the secondary mortgage market. Considering these factors enabled OFHEO to remain knowledgeable of all relevant risks to the Enterprises' safety and soundness.

**Strategic Goal 2:** To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

OFHEO continues to evolve in its relationships with the Enterprises and Congress, as well as interested parties. In order for OFHEO to be effective at regulating the Enterprises, it is important that OFHEO be viewed as providing independent and balanced regulatory oversight. Fairness translates into providing an opportunity for all interested parties to comment on OFHEO's regulatory actions. Independent analysis of regulatory issues provides credibility to the actions taken by OFHEO and ensures that all points of view are examined. OFHEO has identified two strategic objectives with supporting FY 1999 performance goals that will enable the Office to reach this strategic goal. OFHEO's performance is described below.

**Strategic Objective 2.1: To maintain OFHEO's independence in its relationships with the Enterprises.**

**Performance Goal 2.1(a): To use internal modeling capacity to regularly analyze Enterprise risks.**

Performance Measure: Use the Financial Simulation Model to assist OFHEO in developing risk profiles for the Enterprises.

Target: Run specific simulations on an as-needed basis.

**Actual Performance:** Goal met.

OFHEO's experience with the Financial Simulation Model revealed that interest rate risk was the largest component of Enterprise risk. For FY 2001, OFHEO has requested additional examination resources to evaluate this risk. Sensitivity analysis performed in response to requests from potential commenters and posted on OFHEO's website revealed additional risk sensitivities.

**Performance Goal 2.1(b): To maintain the objectivity of the examinations process, OFHEO will participate with other financial regulators on safety and soundness examinations at large financial institutions and be involved in other regulatory forums.**

Performance Measure: To participate in examinations at large financial institutions with the other financial regulators to broaden examiners' expertise and maintain objectivity.

Target: At least two detailed assignments.

Performance Measure: To participate in examination related forums with the other financial regulators.

Target: At least eighteen.

**Actual Performance:** Goal met.

OFHEO participated in examinations of four large financial institutions with the Office of the Comptroller of the Currency and the Office of Thrift Supervision. These examinations of large national banks and thrifts covered a wide range of risk areas comparable to those in OFHEO's examination program. During these examinations, OFHEO discussed examination processes and procedures with the other financial institution regulators.

OFHEO examiners also participated in examination forums exceeding the target level. These forums included the Federal Financial Institutions Examination Council (FFIEC), Mortgage Fraud forums with the other housing and mortgage market regulators and the FBI, the President's Council on Year 2000 Conversion and the GSE Examination Council.

**Impact on Future Plans:**

OFHEO's goal in participating in examinations with other regulators is to maintain examiner objectivity and independence when examining the Enterprises. During this year, OFHEO found it difficult to arrange for these participatory assignments. Beginning FY 2000, OFHEO has revised the performance measure to include other professional development and training programs and joint projects with the other financial regulators.

**Strategic Objective 2.2: To ensure a balanced approach to regulation by providing the Enterprises and all other stakeholders the appropriate opportunity for input on regulatory activities.**

**Performance Goal 2.2(a): To place all proposed regulations on the OFHEO website to enhance opportunities for input.**

Performance Measure: Percent of proposed regulations issued placed on website within two weeks of publication in the Federal Register.

Target: 100 percent.

**Actual Performance:** Goal met.

OFHEO placed all of its proposed regulations on the OFHEO website in a timely manner. As described in the report for Performance Goal 1.1(b), to maximize the understanding and public participation in the rulemaking process, OFHEO also used its website to disseminate supplementary information, and published notice of the electronic dissemination in the Federal Register. OFHEO uses its website to receive comments electronically on its proposed regulations. In FY 1999, OFHEO placed three proposed regulations on its website for comment: Debt Collection, Rules of Practice and Procedure, and Risk-Based Capital.



**Strategic Goal 3:** To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

As the safety and soundness regulator for the Enterprises, OFHEO has the responsibility to ensure that they comply with all laws under its jurisdiction. As a result of their government-sponsored status, the Enterprises have been given many benefits that enable them to fulfill their public purpose. OFHEO worked to ensure that the Enterprises' actions and operations complied with the provisions of their Charter Acts and other applicable laws within its jurisdiction. OFHEO has identified two strategic objectives with supporting FY 1999 performance goals that will enable the Office to reach this strategic goal. OFHEO's performance is described below.

**Strategic Objective 3.1:** To prohibit excessive executive compensation at the Enterprises.

**Performance Goal 3.1(a):** To prohibit excessive executive compensation at the Enterprises.

Performance Measure: Percent of instances of excessive executive compensation acted upon by OFHEO.

Target: 100 percent.

Performance Measure: Timely review of termination agreements for Enterprise executives.

Target: Within 90 days of receipt of request and all necessary materials from Enterprise.

**Actual Performance:** Goal met.

OFHEO monitored overall executive compensation at the Enterprises. The Office also reviewed, as required by statute, two executive termination agreements and determined that they were not excessive. One of these reviews was completed after the target date, as resources were devoted to the risk-based capital regulation.

**Strategic Objective 3.2:** To prohibit the Enterprises from violating other provisions of their Charter Acts or of OFHEO's statute.

**Performance Goal 3.2(a):** To prohibit the Enterprises from violating other provisions of their Charter Acts or of OFHEO's statute.

Performance Measure: Percent of successful supervisory actions to remedy Charter Act and other violations.

Target: 100 percent.

**Actual Performance:** Goal met.

OFHEO found no instances in which the Enterprises violated other provisions of their Charter Acts or of OFHEO's statute.