



OFFICE OF FEDERAL HOUSING
ENTERPRISE OVERSIGHT

Annual Performance Plan

FY 2002

APRIL 16, 2001

OFHEO's FY 2002 ANNUAL PERFORMANCE PLAN

OFHEO MISSION

OFHEO PROMOTES HOUSING AND A STRONG ECONOMY BY ENSURING THE SAFETY AND SOUNDNESS OF FANNIE MAE AND FREDDIE MAC AND FOSTERING THE STRENGTH AND VITALITY OF THE NATION'S HOUSING FINANCE SYSTEM.

OVERVIEW

Introduction

Congress created the Office of Federal Housing Enterprise Oversight (OFHEO) in 1992 to reduce the risk of failure of Fannie Mae and Freddie Mac (the Enterprises) so that they could continue to accomplish their important public missions. These government sponsored enterprises play a critical role in housing finance, keeping funds flowing to mortgage lenders, and in turn, to homeowners. Through effective regulation of the Enterprises, OFHEO contributes to a robust housing sector in the United States and the health of the nation's economy.

OFHEO was established as an independent office within the Department of Housing and Urban Development (HUD) by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the Act) (Title XIII of P.L. 102-550). Its operations are funded through assessments on Fannie Mae and Freddie Mac and represent no direct cost to the taxpayer. To fulfill its mission, OFHEO has regulatory authority similar to other Federal financial regulators such as the Office of the Controller of the Currency (OCC) and the Federal Reserve Board (FRB). OFHEO's responsibilities include broad rulemaking authorities and specific authorities to conduct annual examinations, set capital standards, take enforcement actions and conduct research.

OFHEO primarily accomplishes its mission by conducting examinations of the Enterprises, assessing their capital adequacy and conducting research and analysis on the Enterprises, the environment in which they operate, and the nature of the risks that they face.

The Enterprises

Fannie Mae and Freddie Mac (formally named the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, respectively) are publicly-held companies chartered by Congress. They were established to create a secondary mortgage market to ensure a ready supply of mortgage funds for housing, including housing for low- and moderate-income families.

In performing their mission, they link capital market investors and primary lenders and have become two of the nation's largest financial institutions. The linkage helps provide continuous access to funds for mortgage lenders and lower interest rates for borrowers. In calendar year 2000, the two Enterprises assisted in the funding of \$411 billion of mortgages. During FY 2000,

the Enterprises' market share of residential mortgage debt increased. As of June 30, 2000, Fannie Mae and Freddie Mac held in portfolio or guaranteed in the form of mortgage-backed securities 40 percent of the \$5.4 trillion in total residential mortgage debt outstanding, up from 39 percent of total residential mortgage debt outstanding as of June 30, 1999. Since 1991, they have assisted in funding \$3.7 trillion of mortgages. Homeownership today is the highest in the nation's history at 67.5 percent at the end of 2000.

To assist Fannie Mae and Freddie Mac in achieving their public mission, they receive numerous explicit benefits from the Federal government. These include an exemption from state and local income taxes, an exemption from the registration requirements of the Securities and Exchange Commission (SEC), and conditional credit lines available with the U.S. Treasury. However, the most important benefit is implicit. Because of investors' belief in an implied U.S. government guarantee on their securities, the Enterprises have been able to borrow money more cheaply and without the practical volume restrictions faced by other AAA-rated companies. This market perception also allows the Enterprises to operate with a higher degree of leverage than fully private firms.

The Enterprises have two principal lines of business--guaranteeing securities backed by pools of mortgages and investing in mortgages. These activities provide the linkage to the capital markets that enables the Enterprises to carry out their mission, but also expose the Enterprises to risks. These business lines, their growth, and associated risks are described more fully in OFHEO's FY 2000-2005 Strategic Plan.

To finance their operations, the Enterprises are active as major players in the capital markets. They enter the debt markets to fund the growth in their assets and enter into derivatives transactions to hedge against the risks inherent in the mortgage assets that they hold. These activities are also described more fully in OFHEO's FY 2000-2005 Strategic Plan.

Today, the Enterprises hold or guarantee over \$2.3 trillion in mortgages. The Enterprises changed their business strategy over the last few years in favor of rapidly increasing their mortgage portfolio investments. As a consequence, their mortgage portfolios now account for about 44 percent of their total mortgage business. In dollar terms, the Enterprises have increased their mortgage portfolio holdings from about \$246 billion in 1993 to over \$1 trillion today. This rapid expansion of their mortgage portfolios has been accompanied by a similar sized increase in debt to finance this growth. Additionally, the Enterprises have exponentially increased their use of derivatives from a notional value of around \$70 billion in 1993 to almost \$800 billion today to help manage the interest rate risk associated with mortgages held in portfolio.

Relationship Between the FY 2000-2005 Strategic Plan and the FY 2002 Annual Performance Plan

Strategic Plan

OFHEO issued a new Strategic Plan for FY 2000 - 2005 in September 2000. This is the first Annual Performance Plan developed in accordance with the new Strategic Plan. There are four major components to OFHEO's Strategic Plan: (1) the mission statement, (2) a strategic goal, (3) four strategic objectives, and (4) means and strategies to achieve the objectives.

OFHEO's **mission statement** reflects its congressional mandate to ensure the safety and soundness of Fannie Mae and Freddie Mac and emphasizes the need to foster the strength and vitality of the nation's housing finance system. It also recognizes that success in carrying out this mission promotes a robust housing sector and a strong economy.

To accomplish its mission, OFHEO will focus on one **strategic goal** and four **strategic objectives** that are necessary to accomplish the strategic goal. In the FY 2000-2005 Strategic Plan, OFHEO describes how achieving the strategic goal is linked to accomplishing the mission and how the four strategic objectives are necessary to achieve the strategic goal. The strategic plan also describes management strategies that are necessary to achieve these strategic objectives.

Annual Performance Plan

The FY 2002 Annual Performance Plan describes what OFHEO will do in FY 2002 with the budget request to achieve the goals and objectives described in the Strategic Plan. There are three major components to OFHEO's Annual Performance Plan: (1) strategic objectives which link to the Strategic Plan, (2) performance goals for FY 2002 and (3) means and strategies.

The **strategic objectives** included in OFHEO's Strategic Plan are the starting point in the FY 2002 Annual Performance Plan. They provide a valuable link between the Strategic and Annual Performance Plans and help ensure that strategic goals and objectives as well as the resulting strategies, inputs, outputs, and outcomes are sufficiently integrated and tie into the mission. The performance measures noted for each Strategic Objective in the strategic plan are examples of the performance measures that OFHEO will use for its Annual Performance Goals in the Annual Performance Plans.

The **performance goals** in the Annual Performance Plan link directly to each strategic objective included in OFHEO's Strategic Plan. In some cases, these performance goals must be met annually. In other cases, the performance goals represent incremental progress toward achieving the strategic objectives. Their achievement also depends on OFHEO's achieving its FY 2001 performance goals. To measure whether or not OFHEO achieves its goals, OFHEO uses outcome measures where relevant and available, and uses output measures when they are the best indicators of achieving a goal. Outcomes are the results of what OFHEO does. Outputs are OFHEO's products. As for all regulators, the outcomes or results of OFHEO's work are achieved through the actions of others. The Office provides regulation, supervision, guidance, review and a variety of products that influence the Enterprises and the financial markets.

The third major component of the Annual Performance Plan consists of **means and strategies**. These are the key activities and actions that describe how the office will achieve each performance goal. The discussion describes the linkages between the performance goal and strategic objective, the significance of the goal, and the processes and technologies expected to be used to accomplish the goal.

As required by the Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000, OFHEO will submit a performance report for FY 2002 by March 29, 2003, to discuss the Office's actual performance as compared with the FY 2002 Annual Performance Plan. During the operating year, OFHEO will evaluate its performance internally,

make appropriate adjustments, and continue to analyze and reallocate its budgetary resources to enable the Office to achieve its annual performance goals.

Program Evaluations

OFHEO regularly evaluates its activities, strategies and progress toward achieving its goals throughout the year. The Office uses regular management meetings, “all hands” meetings, and management reports to communicate and discuss organizational goals and objectives, and the status of activities, which further their achievement. OFHEO management also uses the budget formulation and execution processes as opportunities to determine resource needs, reallocating Office resources to meet its strategic goal and objectives. In its review, OFHEO uses cost-effectiveness as one of the primary criteria for determining overall effectiveness in the achievement of the Office’s mission.

In 1995, the General Accounting Office (GAO) conducted an audit of OFHEO’s operations, as required by OFHEO’s enabling statute. In 1997, the GAO conducted a second study to assess OFHEO’s fulfillment of its safety and soundness mission, as required by a provision in the VA-HUD Appropriations Act of 1997 (P.L. 114-204). OFHEO described these reports in its last Strategic Plan and used them to complement internal evaluations, making appropriate changes in operations.

In January 2001, GAO reported on a comparison of the enforcement authorities available to bank regulators, OFHEO and the Federal Housing Finance Board (FHFB). The report noted that OFHEO’s enforcement powers are based on broad safety and soundness authorities that are similar in scope and nature to the powers of federal bank regulators. GAO suggested several appropriate enhancements and clarifications to OFHEO’s explicit enforcement authority to effect greater comparability. Testifying at the House Capital Markets Subcommittee Round Table on GSEs in September 2000, before the GAO reported its findings, OFHEO’s Director had included these enhancements in a broad set of legislative recommendations to Congress. GAO also indicated that OFHEO has properly employed its current informal and formal authorities to address any ambiguities and uncertainties in the law. OFHEO continues to encourage passage of legislation to enhance its authority.

The GAO is initiating a study of the adequacy of the capital structure of the Federal Home Loan Bank System, as required by the Consolidated Appropriations Act of 2001. As part of this study, the GAO will compare the risk-based capital standards for the Federal Home Loan Banks promulgated by the Federal Housing Finance Board and the risk-based capital standard proposed by OFHEO for the Enterprises. OFHEO looks forward to reviewing the results of this study.

OFHEO’s enabling statute also prescribed another set of studies. For the initial risk-based capital standard (discussed in Strategic Objective 1), OFHEO may not incorporate Enterprise purchases of new mortgages into the stress test used to calculate the risk-based capital standard. The statute requires that once the initial risk-based capital regulation is final, the Congressional Budget Office (CBO) and the GAO study the advisability and appropriate form of any new business assumptions. OFHEO anticipates that these studies would take place in FY 2002, and will consider their results in future revisions of the risk-based capital standard.

Verification and Validation

The Office is systematically monitoring and tracking progress in achieving its performance goals. OFHEO maintains information, as described in the performance measures themselves, so that the Office's performance can be validated. OFHEO's managers report their performance and progress against the performance goals, and can rely on this information as they manage their operations. Most of OFHEO's performance indicators reflect data and milestones internal to the Office. The data used as input to the capital calculations are an exception. For the minimum capital calculation, senior officers of each Enterprise transmit their data and attest to its completeness and accuracy. OFHEO is able to validate the data through comparison with published Enterprise data with a high level of integrity, and has been comfortable with the data received. When the risk-based capital standard is used for capital calculations, OFHEO anticipates an ability to validate aspects of the data submission through various checks in the financial simulation model.

OFHEO's FY 2002 Budget Request

The rapid growth and complexity of the Enterprises' operations continue to stress OFHEO's capacity to provide effective safety and soundness oversight. Since OFHEO's creation in June 1993, the amount of mortgages on which the Enterprises are exposed to credit risk has more than doubled to over \$2.3 trillion.

To provide OFHEO with sufficient capacity to ensure effective and dynamic oversight of the Enterprises, OFHEO is requesting \$27 million, an increase of \$5 million, or 23 percent over the FY 2001 enacted level. This increase is primarily for a \$4 million capital acquisition to ensure that OFHEO has adequate computing resources to handle its full complement of oversight tools to analyze a growing number of complex transactions at the Enterprises. The current computer capacity is not sufficient to handle the Office's increased demands both now and in the future.

With the resources requested, OFHEO would purchase a large-scale server and a tape back-up facility. A single large-scale server has significantly better performance than other alternatives and has been proven successful at another Federal agency with similar data warehousing requirements. The single purchase is also operationally more efficient than staging its purchase over two years. To ensure accountability and transparency, OFHEO must purchase a tape back-up facility to archive stress test runs involving large amounts of data and calculations, perform a comprehensive back-up of the data warehouse, and serve as the key recovery mechanism in case of processing problems. These computer resources are a necessary part of the means and strategies of achieving most of OFHEO's performance goals, and are noted explicitly in several of them. The purchase of a large-scale server and computer tape back-up facility is consistent with OFHEO's five-year Information Technology Plan and Capital Asset Plan.

The request level does not support an expansion of existing programs or additional initiatives. The FY 2002 Performance Plan describes what OFHEO would accomplish with the resources requested.

These resources will permit the Office to proceed effectively with all facets of the regulatory agenda provided by Congress. These include financial safety and soundness examinations of the Enterprises; implementation of the risk-based capital standard and its ongoing development; and other financial, analytical and policy tools required for effective regulatory oversight. In performing its various regulatory functions, OFHEO functions as one program and uses cross-organizational teams comprised of staff members from various OFHEO offices, depending on the nature and complexity of the task. Thus, it is difficult to directly link OFHEO resource levels to specific performance goals as reflected in the means and strategies.

Internal Management and Administrative Support to Achieve Performance Goals

OFHEO's success in achieving its performance goals depends on the effective management of its resources and seamless financial and administrative support functions. As a small office, OFHEO relies on staff and management to accomplish its goals through matrix management of cross-organizational teams, timely information for decision-making, and coordination.

OFHEO's staff are its most valuable resources. 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 will focus additional efforts to continue to attract and maintain a high performance workforce, provide appropriate training and incentives for achievement of OFHEO's performance goals, as described in the final section of performance goals in the FY 2002 Performance Plan.

OFHEO also depends on maintaining information technologies that are effective, and comparable to those used by other organizations with similar analytical requirements. Without these technologies, OFHEO would not be able to provide independent analysis of safety and soundness issues to accomplish its mission. The use of information technology is an integral part of OFHEO's mission and of the operation of the Enterprises that the Office regulates. To provide sufficient capacity for OFHEO's computer infrastructure, OFHEO is requesting funds for a large-scale server and tape back-up facility as described above under OFHEO's FY 2002 budget request. This purchase is necessary for OFHEO to achieve its performance goals in FY 2002 and the future.

OFHEO's information security program provides for the protection of its information assets, including the hardware and software used to create and maintain the information. Information security at OFHEO is a shared responsibility among the Deputy CIO, several information professionals and everyone in OFHEO, amounting to about one full time equivalent workyear. During FY 2002, OFHEO will continue its program of information security monitoring and staff training, and will update risk assessments of its systems to ensure the associated risks have been mitigated. OFHEO will also undertake an internal review, and follow up with an independent audit of its information security program as required by the Government Information Security Reform Act of FY 2002.

OFHEO has very few contracts and procurements over \$25,000. By FY 2002, OFHEO expects to use performance-based contracting for at least 20 percent of contracts over this amount. OFHEO already posts synopses for acquisitions in the Commerce Business Daily, and will also

expand its use of on-line procurement by posting synopses and all associated solicitations on the government-wide point-of-entry web site (www.FedBizOpps.gov).

During FY 2002, OFHEO will continue using the systems in place to monitor actual performance against the Performance Plan. On a quarterly basis, OFHEO's progress in meeting its performance goals is discussed among senior management and disseminated to OFHEO staff. Because OFHEO's appropriation is for a single account, and management has access to real time budget information, management will be able to redirect resources timely, if necessary, to accomplish the Office's goals.

OFHEO's MISSION STATEMENT

OFHEO PROMOTES HOUSING AND A STRONG ECONOMY BY ENSURING THE SAFETY AND SOUNDNESS OF FANNIE MAE AND FREDDIE MAC AND FOSTERING THE STRENGTH AND VITALITY OF THE NATION'S HOUSING FINANCE SYSTEM.

OFHEO has developed a strategic goal and four strategic objectives to achieve its mission.

STRATEGIC GOAL

TO ENSURE FANNIE MAE AND FREDDIE MAC REMAIN SAFE AND SOUND THROUGH EFFICIENT AND EFFECTIVE REGULATION AND BY FOSTERING A STRONG AND VITAL HOUSING FINANCE SYSTEM.

OFHEO's strategic goal supports the clear and important mission of the Office. It recognizes the critical role that OFHEO plays in ensuring the safe and sound operations of the Enterprises. The goal also recognizes that OFHEO must foster the health of the nation's housing finance system in order to ensure the safety and soundness of the Enterprises. Without a strong housing finance system, the Enterprises could face limitations on their ability to buy and sell financial instruments, which could affect their safety and soundness.

STRATEGIC OBJECTIVES

OFHEO established four strategic objectives to support the achievement of the strategic goal and ultimately, the accomplishment of OFHEO's mission.

1. Ensure the Enterprises are adequately capitalized.
2. Ensure the Enterprises comply with safety and soundness standards and other legal requirements.
3. Enhance public understanding of the nation's housing finance system.
4. Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.

STRATEGIC OBJECTIVE 1: ENSURE THE ENTERPRISES ARE ADEQUATELY CAPITALIZED.

Adequate capital protects an Enterprise from severe losses due to unexpected events such as economic crises or management missteps. Without sufficient capital, a company could fail under such circumstances. The Enterprises must be sufficiently capitalized to withstand severe economic conditions, which is when they would be most needed to support the nation's housing finance system. Regulatory capital standards may require an Enterprise to hold more capital than the Enterprise might otherwise choose to hold, thereby providing greater protection for the nation's housing markets.

To help ensure that Fannie Mae and Freddie Mac are adequately capitalized, OFHEO has instituted a comprehensive program of capital regulation consistent with statutory requirements. This program imposes a minimum capital requirement and a risk-based capital requirement on each Enterprise. Both requirements are calculated at specific points in time and at least quarterly. The minimum capital requirement is calculated using a traditional ratio method that requires an Enterprise to hold capital equal to specific percentages of broad business categories. The risk-based capital requirement is calculated on the basis of specific risks inherent in the Enterprises' holdings and activities, especially the risks of unexpectedly high losses due to defaults by mortgage borrowers and adverse changes in interest rates. OFHEO uses a stress test—a model that estimates how the Enterprises would perform under stressful economic conditions—to determine each Enterprise's risk-based capital requirement. The stress test determines the amount of capital that each Enterprise would need to remain solvent during a 10-year period of large, adverse movements in interest rates and high levels of mortgage default and loss.

Performance Goal 1.1: Each Enterprise's actual capital meets or exceeds applicable capital requirements on at least a quarterly basis.

Performance Measure 1.1(1): Using OFHEO's minimum capital standard, the ratio of core capital to required minimum capital is equal to or greater than one on at least a quarterly basis for each Enterprise.

Performance Measure 1.1(2): Using OFHEO's risk-based capital standard, the ratio of total capital to required risk-based capital is equal to or greater than one on at least a quarterly basis for each Enterprise. (applicable when the risk-based capital regulation is fully enforceable)

Performance Measure 1.1(3): Whenever an Enterprise does not comply with OFHEO's capital standards, OFHEO receives an acceptable capital plan.

Means and Strategies:

During FY 2002, OFHEO will continue to classify each Enterprise at least quarterly on the basis of OFHEO's minimum capital standard, as required by law. OFHEO's risk-based capital standard will be published as a final rule by the end of FY 2001, and will be fully enforceable a year after its effective date. When the risk-based standard becomes fully enforceable, OFHEO will also use that standard to determine each Enterprise's capital classification. For the minimum capital classification, 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. For the risk-based capital classification, an Enterprise is considered adequately capitalized if total capital (core capital plus a general allowance for foreclosure losses), plus a statutorily mandated additional 30 percent to cover management and operations risk, exceeds the risk-based capital level.

The quarterly minimum capital classification is based on reports submitted by each Enterprise within 30 days of the end of each quarter. Each report contains the information OFHEO needs to determine that Enterprise's capital classification. Within 60 days from the end of the quarter, OFHEO computes the minimum capital requirement for each Enterprise based on the Enterprise's on-balance sheet assets and off-balance sheet obligations, and then compares each Enterprise's core capital to its required minimum capital level. Until OFHEO's risk-based capital standard becomes enforceable, an Enterprise is deemed "adequately capitalized" if its core capital exceeds required minimum capital determined by OFHEO. In accordance with the minimum capital regulation, OFHEO then notifies each Enterprise of its proposed capital classification. Each Enterprise has a 30-day period to respond. OFHEO has 30 days from the end of the response period to consider an Enterprise's response and make final the capital classification for the Enterprise for that quarter.

Currently, OFHEO calculates minimum capital levels monthly. OFHEO requires each Enterprise to report information relating to the minimum capital standard as of the end of each calendar month. This requirement helps ensure that the Enterprises maintain capital at or above the amounts required by the minimum standard throughout each quarter and facilitates more frequent capital classifications if appropriate.

When OFHEO's risk-based capital standard is fully enforceable, an Enterprise will be deemed "adequately capitalized" if it meets or exceeds the levels required by the minimum and the risk-based standards. OFHEO will use the stress test to compute the risk-based capital level for each Enterprise. When the risk-based capital standard is fully enforceable, the timing and the process for notifying each Enterprise of OFHEO's proposed capital classification and making final capital classifications will be the same as the process for minimum capital described above. For risk-based capital, each Enterprise will submit data in a model-ready format specified by OFHEO in a risk-based capital report, similar to the call report approach used by bank regulators. After modest OFHEO follow-up to verify and validate the data, OFHEO will run it in the stress test model. During FY 2002 and before the standard is fully enforceable, OFHEO will calculate and analyze risk-based capital levels quarterly to facilitate the Enterprises' transition to the risk-based capital requirement.

To ensure that each risk-based capital calculation is produced on time, OFHEO will purchase a large-scale server in FY 2002 to provide adequate capacity to handle the current competing demands of OFHEO’s computer resources. To ensure transparency and accountability, OFHEO needs to expand its computer tape back-up capacity to archive its stress test runs which involve large amounts of data and calculations. Resources for these investments are included in OFHEO’s FY 2002 budget request.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Each Enterprise’s actual capital meets or exceeds applicable capital requirements at least quarterly (ratio of actual capital to required capital is greater than one).
2001	Same as above (FY 2001 Performance Goal 1.2(a)).
2000	Quarterly minimum capital classification ratios Fannie Mae: 1.01 to 1.03 Freddie Mac: 1.03 each quarter
1999	Quarterly minimum capital classification ratios Fannie Mae: 1.01 to 1.02 Freddie Mac: 1.03 to 1.04

Performance Goal 1.2: Ensure the Risk-Based Capital stress test incorporates new products and activities.

Performance Measure: All new products and activities of each Enterprise are identified, evaluated, and reflected appropriately in the calculation of the Enterprise’s risk-based capital requirement.

Means and Strategies:

The mortgage finance industry and two of its most important participants, the Enterprises, undergo rapid and continuous change. For OFHEO to regulate the Enterprises effectively, the risk-based capital standard must respond to innovations in the housing finance markets and the Enterprises’ operations. Every quarter, OFHEO must evaluate the risk implications of novel debt instruments, hedging vehicles, credit enhancements, mortgage products, and other new Enterprise activities.

The risk-based capital standard is sufficiently flexible to incorporate new products and activities into the existing stress test in the quarter when they first appear. In accordance with the procedure set forth in the draft final rule, after further analysis and comments from the public and the Enterprises, OFHEO may refine the initial treatment of these products and activities in the stress test for future quarters. The new treatment will require research and analysis and may require a revision of relevant software and its documentation, and adjustments to the standard data submission format required of the Enterprises.

OFHEO anticipates that ongoing support of the risk-based capital rule, especially for treatments of new Enterprise products and activities in the stress test, will require extensive interaction with the regulatees and the public. OFHEO will describe initial treatments of new products and activities at the time of the final risk-based capital classifications. OFHEO will use a variety of media—including its website and the *Federal Register*—to make this information publicly available. OFHEO will then consider comments it received from the public in subsequent quarters.

THIS IS A NEW PERFORMANCE GOAL.

Performance Goal 1.3:	Ensure the Risk-Based Capital model is updated to incorporate new techniques in measuring risk.
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Performance Measure: New risk measurement techniques relevant to Enterprise risks are identified and, in future years, incorporated into OFHEO's risk-based capital stress test as appropriate.

Means and Strategies:

OFHEO must study how changes in the market and industry practices affect the capital adequacy of the Enterprises. Over time, the Enterprises will take on new risks, and new historical data will be available for empirical analysis. In FY 2002, to ensure that each Enterprise's risk-based capital requirement continues to reflect accurately its risk exposure, OFHEO will conduct on-going research on these risks and analyze research by others, to determine whether and how the stress test should be modified to incorporate new techniques and information. On an ongoing basis, OFHEO will conduct in-depth research on the credit risk, interest rate risk, and other types of risks to which the Enterprises are exposed, and on refinements in modeling and risk measurement techniques. OFHEO will also analyze the intermediate outputs of the stress test model to explain the components of the risk-based capital calculations and identify developing trends and emerging issues for further research. This research is essential to ensure that the risk-based capital standard reflects accurately the evolving risk exposure of each Enterprise.

OFHEO's FY 2002 budget request includes funds for a large-scale server. Without this investment, enhancements to the stress test (e.g., incorporating the performance of subprime loans) would be slowed because OFHEO would not have the computer hardware to support multiple risk-based capital-related research projects simultaneously.

OFHEO's research and analysis in support of the risk-based capital standard will require extensive, on-going interaction with the Enterprises and the public. For example, OFHEO expects that on a continuing basis, suggestions will be received for enhancing the stress test's treatment of various risk factors. In FY 2002, OFHEO will analyze such comments and consider whether and how it may be appropriate to revise the stress test in the future. OFHEO's dialogue with the Enterprises and the public as the Office conducts

its research will also contribute to Strategic Objective 3, "Enhance public understanding of the nation's housing finance system."

In the fourth quarter of FY 2001, OFHEO will adopt a research plan for FY 2002 that will include research on possible enhancements to the measurement of Enterprise risks in the stress test. The timing of the development of the research plan will allow OFHEO to select topics that address current issues, and use the most recent research, information, and available data and resources. OFHEO will revise the plan as needed during FY 2002 to take into account research priorities that emerge during the year.

THIS IS A NEW PERFORMANCE GOAL.

Performance Goal 1.4: Improve reliability and availability of the computer resources that support the regulatory infrastructure.
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Performance Measure: The number of times a capital calculation is delayed due to the reliability and availability of computer resources is zero.

Means and Strategies:

As described in OFHEO's Strategic Plan, OFHEO's mission activities depend heavily on its computing infrastructure. OFHEO's enabling statute requires that a large, complex computer model operates on large volumes of data to calculate the Enterprises' risk-based capital levels within timeframes prescribed in the statute at least once every quarter for classification purposes. Additionally, the model will be used for research and analysis. The OFHEO House Price Index (HPI), which is calculated quarterly and is a critical element of the risk-based capital calculation, computes the change in house prices on the national, regional and local levels, and is based on an analysis of tens of millions of mortgages. It is also made available quarterly to the public. To maintain OFHEO's computer infrastructure and modeling capacity, OFHEO uses a mix of economists, financial analysts, financial modelers, and computer specialists. OFHEO's infrastructure can support changes to the stress test model described in Performance Goals 1.2 and 1.3, unless they require additional investments in computer resources beyond those requested in the FY 2002 budget. As described in OFHEO's Strategic Plan, the repository of housing and mortgage data, which OFHEO is currently designing, will be an important tool to assist OFHEO's examiners, researchers and policy analysts in understanding the rapid changes in housing finance in future years. OFHEO plans to request funding in the future to implement the data repository. The new server described below will have sufficient capacity to accommodate it.

All of these activities place continued and competing demands on OFHEO's computing infrastructure. To ensure that regulatory and supervisory projects are never delayed by the reliability or availability of OFHEO's computer resources, OFHEO must purchase a large-scale server and computer tape back-up facility in FY 2002. Given the tight timeframes in the risk-based capital rule, even a short interruption could delay the capital calculation. The investment in the large-scale server is necessary for OFHEO to achieve

this and other goals in the Performance Plan. The current system cannot handle the current competing intensive demands simultaneously placed up on it by the House Price Index, the Stress Test, examinations and research projects without a loss of productivity.

THIS IS A NEW PERFORMANCE GOAL.

Performance Goal 1.5:	Revise the capital adequacy regulations when appropriate to incorporate new products and improvements in risk measurement developed through Performance Goals 1.2 through 1.3 and any alterations of legal standards or regulations.
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Performance Measure: Proposed changes to minimum and risk-based capital rules completed in scheduled timeframe.

Means and Strategies:

OFHEO will consider making revisions to its risk-based capital rule as warranted, pursuant to the directives of the Administrative Procedures Act. As described in Performance Goal 1.2, the rule must evolve as the Enterprises' financial risk management strategies and products evolve. As described in Performance Goal 1.3, new methods for modeling and measuring risk may emerge from the research and deliberations of OFHEO, academics, other regulators, the public, and the Enterprises. These developments may assist in further refining the rule to provide more accurate risk measurements. Additionally, other regulations promulgated by OFHEO may have effects that would require some revision of the risk-based capital rule. Maintaining the most up-to-date and effective rule is essential to meeting OFHEO's safety and soundness mandate and providing the Enterprises clear and effective guidance on important aspects of their risk management practices. OFHEO may propose revisions to the rule to reflect new modeling treatments as necessary. However, OFHEO will weigh the costs and benefits of making changes to a rule which has as a goal some degree of stability and comparability in its results. As OFHEO determines that changes in the Rule may be warranted, OFHEO will set a schedule for proposing revisions to the regulation that reflects the requirements of the Administrative Procedures Act.

THIS IS A NEW PERFORMANCE GOAL.

STRATEGIC OBJECTIVE 2: ENSURE THE ENTERPRISES COMPLY WITH SAFETY AND SOUNDNESS STANDARDS AND OTHER LEGAL REQUIREMENTS.

OFHEO must maintain its ability and capacity to ensure that specific issues and emerging trends are identified early and that potential vulnerabilities of the Enterprises are appropriately addressed. Critical to its mission is the knowledge, skills and expertise OFHEO acquires through its Examination Program. Maintaining a solid understanding of the Enterprises' exposures, risk management techniques, operating strategies, and financial condition is critical to OFHEO's responding rapidly and effectively.

OFHEO maintains a prospective focus to identify potential problems at the Enterprises or in the marketplace before they can cause significant harm. Also, OFHEO is committed to ensuring its supervisory practices are both up-to-date and adaptable to the rapid changes in the environment and the evolution of products and services provided by the Enterprises.

Performance Goal 2.1: Ensure each Enterprise operates in a safe and sound manner by conducting a continuous, risk-based examination of each Enterprise.

Performance Measure: Completion of an annual examination report for each Enterprise that covers the relevant areas of risk.

Means and Strategies:

During FY 2002, full-scope examinations will be conducted at both Enterprises. Throughout the annual examination cycle, matters that are raised during the examination will be communicated to management of the Enterprise. Matters raised during the examination that require remedial action will be appropriately addressed with subsequent testing for compliance. In the event there are matters raised during the examination that pose a potential safety and soundness threat to an Enterprise, OFHEO will use its enforcement authority to effect timely resolution of the matter threatening safety and soundness.

During FY 2002, OFHEO will complete its annual 2001 examinations for Fannie Mae and Freddie Mac. This will include the completion of the annual risk-based examination by completing fieldwork by December 31, 2001. A summary Report of Examination covering the results from each program area will be completed and delivered to the Boards of Directors of the Enterprises by February 28, 2002. Upon delivering the Report of Examination, a meeting with each Enterprise's Board of Directors will be scheduled to discuss the examination results and conclusions. Further, OFHEO will disclose the results and conclusions from Fannie Mae's and Freddie Mac's annual examination in OFHEO's Annual Report to Congress in June 2002. OFHEO will also survey each Enterprise to solicit feedback on the CY 2001 annual examination. The survey conducted

by OFHEO is intended to allow the Enterprises to provide candid feedback on the examination program.

Also during FY 2002, OFHEO will conduct a significant portion of its annual 2002 examinations for Fannie Mae and Freddie Mac. This will include the completion and communication of the CY 2002 Examination Strategies for each Enterprise by December 31, 2001. Beginning in January 2002, fieldwork for the 2002 examination will be conducted. At the end of each calendar quarter, the “assessment factors” are reviewed and updated. Each quarter an updated risk profile for each Enterprise is determined, and the Examination Strategy is revised as needed. This updated risk profile benefits from: the analytical work conducted through the Surveillance and Monitoring program; the financial analysis tools; technical work being conducted and special studies; economic analysis; and environmental analysis. Periodic updates covering the status of the examinations are provided to management and the Boards of Directors. In the event there are any potential safety and soundness concerns, OFHEO will immediately engage the respective Board of Directors.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Ensure each Enterprise operates in a safe and sound manner by conducting a continuous risk-based examination of each Enterprise. Complete an examination report for each Enterprise that covers the relevant areas of risk.
2001	Same as above (FY 2001 Strategic Objective 1.3).
2000	Completed CY 1999 examination and began CY 2000 examination.
1999	Completed CY 1998 examination and began CY 1999 examination.

Performance Goal 2.2: The Enterprises meet or exceed safety and soundness standards.

Performance Measure: The number of safety and soundness concerns not having an appropriate action taken is zero.

Means and Strategies:

Throughout the course of conducting the examination, OFHEO communicates with Enterprise personnel not only to gather information, but also to share findings and discuss observations. The communications conducted during the examination range from informal to formal. Regardless of the format, OFHEO has the same goal for all communications: that the free flows of information furthers the objective of ensuring the safe and sound operations of the Enterprises.

Communications are tailored to the individual structure and dynamics of the Enterprises, and the timing of the communication depends on the situation being addressed. OFHEO keeps each Enterprise’s executive management and Board of Directors appropriately

informed and communicates with them as often as required by the Enterprise's condition and the findings from examination activities. OFHEO brings to the immediate attention of the Board and executive management those issues that introduce a risk exposure to the stable operation of the Enterprise, otherwise fall under the normal duties and responsibilities of the Board or warrant the Board's attention. Technical issues and matters relating to a single line of business or activity will generally be brought to the attention of operating managers with the Board and executive management kept appropriately informed.

A primary goal of the examination process is to influence positive changes at the Enterprises to enhance their financial safety and soundness. The intensity of the influence exerted by OFHEO relates directly to the risk presented by an issue. If, for example, in the course of an examination, OFHEO identifies a significant issue in risk management systems or an undesirable risk level, OFHEO will require management to develop and execute a corrective action plan, and will ensure that the Board holds management accountable for executing the action plan. OFHEO will review the action plan to ensure that it identifies the steps or methods required to cure the root causes of significant deficiencies, and to determine whether the plan is likely to resolve any significant concerns within an appropriate time frame. As part of follow-up, OFHEO will verify that the action plan has been executed and evaluate its success.

OFHEO considers the responsiveness of the Enterprise in recognizing the issue and formulating an effective solution when determining if OFHEO needs to take incremental supervisory action. If an Enterprise is unresponsive or unable to effect the resolution of meaningful issues, OFHEO will take more formal steps to ensure deficiencies are corrected.

Related FY 2001 Goal and Prior Year Performance Information:

2002	The Enterprises meet or exceed safety and soundness standards. The number of safety and soundness concerns not having an appropriate action taken is zero.
2001	Percent of examination issues identified in the annual Report of Examination not being appropriately addressed is zero. (FY 2001 Performance Measure 1.4(a)).
2000	Both Enterprises were financially sound and well managed.
1999	Both Enterprises were financially sound and well managed.

Performance Goal 2.3:	Conduct surveillance and monitoring to complement and support the risk assessment process of the examination function.
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Performance Measure: Complete planned internal analytical reports quarterly.

Means and Strategies:

OFHEO conducts examinations based on an analysis of the risk profile for each Enterprise combined with a comprehensive and systematic review of the assessment factors and corresponding evaluation criteria for each of ten program areas. The findings for the examinations reflect a combination of the quantitative measurement of the risk profile for each Enterprise with the qualitative appraisal of the program area assessment factors by the examiners. Surveillance and monitoring complements and supports the risk assessment process of the examination function. As part of the ongoing examination of the Enterprises, OFHEO develops analytical reports for internal use as issues arise.

Related FY 2001 Goal and Prior Year Performance Information

2002	Conduct surveillance and monitoring to complement and support the risk assessment process of the examination function. Complete planned internal analytical reports quarterly.
2001	Same as above (FY 2001 Performance Goal 1.3(c)).
2000	Reports prepared quarterly.
1999	Reports prepared quarterly.

Performance Goal 2.4:	Ensure new mortgage programs do not risk significant deterioration of the Enterprises' financial conditions.
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Performance Measure: No new mortgage programs approved by the HUD Secretary cause significant deterioration of the enterprises' financial conditions.

Means and Strategies:

The HUD Secretary has the authority to approve new mortgage programs proposed by the Enterprises. Until OFHEO's risk-based capital standard is enforceable, OFHEO has the statutory responsibility to assess the implications of proposed new programs for Enterprise safety and soundness. Specifically, if the Director determines that a new mortgage program would risk significant deterioration of the financial condition of an Enterprise, that determination would serve as a basis for the HUD Secretary to disapprove the program. OFHEO and HUD have developed a good working relationship for considering new program requests from the Enterprises. Within 45 days of a new mortgage program request, the Director of OFHEO will send a letter to the HUD Secretary providing OFHEO's views on the proposal.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Ensure new mortgage programs do not risk significant deterioration of the Enterprises' financial conditions. No new mortgage programs approved by the HUD Secretary cause significant deterioration of the Enterprises' financial conditions.
2001	Same as above (FY 2001 Performance Goal 1.5(a)).
2000	No new programs identified by the Secretary of HUD.
1999	No new programs identified by the Secretary of HUD.

<p>Performance Goal 2.5: Ensure that executive compensation at the Enterprises is not excessive.</p>
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Performance Measure 2.5(1): The Enterprises comply with the executive compensation regulation that OFHEO will promulgate in FY 2002.

Performance Measure 2.5(2): OFHEO takes appropriate action with respect to any instances of excessive compensation provided to executive officers of the Enterprises.

Means and Strategies:

OFHEO's statute requires the Director to prohibit the Enterprises from providing excessive compensation to any executive officer. Specifically, the statute provides that compensation must be reasonable and comparable with compensation paid by other similar businesses to executives having similar duties and responsibilities. "Similar businesses" include publicly held financial institutions or major financial services companies. Additionally, the Enterprises' Charter Acts require the Enterprises to obtain the prior approval of OFHEO's Director before entering into or changing agreements to provide termination benefits to executive officers. The Charter Acts provide that the Director of OFHEO may not approve any such agreements unless the Director determines that the benefits provided thereunder are comparable to those of officers of other public and private entities involved in financial services and housing interests who have comparable duties and responsibilities.

OFHEO, with the assistance of an executive compensation consulting firm, completed an extensive study of executive compensation at the Enterprises in FY 1998 based on 1996 compensation data. The study resulted in the identification of a peer group of comparable firms and a methodology for tracking and monitoring changes in executive compensation at the Enterprises on an on-going basis.

OFHEO's Strategic Plan calls for a comprehensive executive compensation study to be done every five years; OFHEO will initiate the next study in FY 2002. It will provide information on how the compensation of executives at peer firms who have duties and responsibilities similar to those of Enterprise executives has changed since the mid-

1990's. The study will also provide information about each Enterprise's executive compensation program and the compensation of Enterprise executive officers compared to those at the other firms.

In prior years, OFHEO has also reviewed the Enterprises' policies for providing termination agreements and severance packages. In FY 2002, OFHEO will issue a regulation setting forth the procedures that the Enterprises must follow to enable OFHEO to carry out its statutory responsibilities in the area of executive compensation.

OFHEO will also continue to monitor changes in executive compensation at the Enterprises to ensure that such compensation is not excessive. When an Enterprise submits for OFHEO's approval an agreement or amendment to an agreement that provides termination benefits to an executive, OFHEO will review and act upon the Enterprise's request. OFHEO will also monitor the Enterprises' compliance with the executive compensation regulation and, if necessary, take appropriate steps to assure their compliance.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Ensure that executive compensation at the Enterprises is not excessive. The Enterprises will comply with the executive compensation regulation that OFHEO will promulgate in FY 2002. Take appropriate action with respect to any instance of excessive executive compensation.
2001	Ensure that executive compensation at the Enterprises is not excessive. Act on 100 percent of instances of excessive executive compensation. Review termination agreements timely (90 days). (FY 2001 Performance Goal 3.1(a)).
2000	Monitored overall executive compensation. Termination agreements not excessive (Reviewed six).
1999	Monitored overall executive compensation. Termination agreements not excessive (Reviewed two—one completed after the target).

<p>Performance Goal 2.6: Ensure the Enterprises comply with applicable laws, regulations and directives.</p>
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Performance Measure: Any identified instances of non-compliance with regulations or directives are resolved to OFHEO's satisfaction.

Means and Strategies:

OFHEO is strengthening its regulatory infrastructure to ensure a firm legal foundation for carrying forward its statutory responsibilities. The enhanced infrastructure will provide greater transparency to OFHEO actions and legal certainty for regulatory actions and initiatives. This ongoing effort to promulgate regulations on an array of minimum

supervisory standards and procedures will further ensure the safety and soundness of the Enterprises, provide greater transparency and public understanding of the regulatory regime affecting the Enterprises, and provide a clear expression of the regulatory bases for OFHEO actions in matters of supervisory concern. The broad areas that OFHEO is considering include the Enterprises' corporate governance practices, safety and soundness standards, and compliance issues. While this will be an ongoing effort, OFHEO anticipates completing the regulations that comprise the basic regulatory infrastructure by the end of FY 2002. Following establishment of the more comprehensive infrastructure, regulatory initiatives will continue on both formal and informal bases, including the use of orders, directives, letters, and supervisory guidances.

Formal and informal agency actions, taken pursuant to regulations that have had public notice and comment, receive greater support in judicial proceedings and will enhance OFHEO's enforcement flexibility and capability.

OFHEO will also coordinate with HUD to ensure the Enterprises operate in compliance with their respective charters.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Ensure the Enterprises comply with applicable laws, regulations and directives.
2001	Ensure that the Enterprises do not violate other provisions of their Charter Acts or of OFHEO's statute. (FY 2001 Performance Goal 3.2(a)).
2000	No instances of violation.
1999	No instances of violation.

STRATEGIC OBJECTIVE 3: ENHANCE PUBLIC UNDERSTANDING OF THE NATION’S HOUSING FINANCE SYSTEM.

Enhancing the public’s understanding of the nation’s housing finance system, including the roles and activities of the Enterprises and OFHEO, contributes directly to the strength and vitality of that system. The public—borrowers, investors, market participants, policymakers, and other stakeholders—will make better decisions about the allocation of their resources if they are well informed. OFHEO, with its expertise in housing finance, is uniquely positioned to provide the public with information and analysis that leads to more informed decision-making by the public.

Performance Goal 3.1: Analyze and report about the secondary mortgage market in OFHEO’s annual Report to Congress.

Means and Strategies:

OFHEO’s annual Report to Congress reviews the activities and performance of the Enterprises, analyzes major trends and policy issues related to the housing finance system, and discusses other topics of interest to the Congress and the public. The report summarizes the findings of OFHEO’s annual comprehensive risk-based examination and contains analytical information and data about Fannie Mae and Freddie Mac and the secondary mortgage market. The report, which is published by June 15th of each calendar year, is made public on OFHEO’s web site as soon as it is distributed to the Congress. Hard copies are also available.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Analyze and report about the secondary mortgage market in OFHEO’s annual Report to Congress.
2001	Same as above (FY 2001 Performance Goal 2.3(a)).
2000	Annual Report sent to Congress June 15, 2000.
1999	Annual Report sent to Congress June 15, 1999.

Performance Goal 3.2: Analyze and report quarterly on house price trends through OFHEO’s House Price Index (HPI) Report.

Means and Strategies:

OFHEO’s quarterly House Price Index (HPI) documents changes in home prices for the nation, each state, the nine census regions, and metropolitan statistical areas (MSAs). Originally developed for use in OFHEO’s stress test, this repeat transactions index provides the public with a reliable indicator of movements in real estate values. OFHEO posts the HPI on the web site each quarter. Many researchers, analysts and practitioners

rely on OFHEO's HPI. Without sufficient computer capacity, as requested in the FY 2002 budget, enhancements and continued timely production in future years may be jeopardized.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Analyze and report quarterly on house price trends through OFHEO's House Price Index (HPI) Report.
2001	Same as above (FY 2001 Performance Goal 2.3(a)).
2000	HPI Report issued quarterly.
1999	HPI Report issued quarterly.

<p>Performance Goal 3.3: Undertake research and analysis of emerging issues identified in FY 2001.</p>
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Performance Measure: Completion of FY 2002 goals of FY 2001 research plan.

Means and Strategies:

In the fourth quarter of FY 2001, OFHEO will adopt a research plan for FY 2002 to ensure that research priorities are set to address current issues, using the most recent research information and available data and resources. The plan will identify the topics on which OFHEO plans to conduct empirical research and policy analysis during the fiscal year. OFHEO's research and analysis will address issues related to the safety and soundness and capital adequacy of the Enterprises, including research on possible enhancements to the measurement of Enterprise risks in the stress test. The timing of the development of the research plan will allow OFHEO to select topics based on knowledge of current issues, the most recent research, and available data and resources. The plan will establish goals for the preparation of reports, staff studies, aspects of OFHEO's annual Report to Congress, or other analyses or publications. Because of the proprietary nature of certain information, some of the projects will be for internal use only and others will be available for public dissemination. OFHEO will revise the plan as needed during FY 2002 to take into account research priorities that emerge during the year.

The results of OFHEO's research will be essential to the achievement of Strategic Objective 1, "Ensure the Enterprises are adequately capitalized" and Strategic Objective 2, "Ensure the Enterprises comply with safety and soundness standards and other legal requirements". Reports, staff studies, and other analyses released by OFHEO will provide valuable information to the public and enhance understanding of the housing finance system, the Enterprises, and related policy issues.

OFHEO's FY 2002 budget request is key to achieving this goal during FY 2002 and in the future. OFHEO's FY 2000-2005 Strategic Plan envisions an active research and analysis agenda to increase OFHEO's and the public's understanding of the Enterprises and the mortgage industry. Without OFHEO's requested increase in computing capacity,

these research and analysis activities would need to be scaled back, as they would be prioritized behind running the quarterly risk-based capital stress test, producing the quarterly House Price Index, and enhancing the stress test to accommodate new GSE activities. Opportunities for research and analysis that could improve the stress test would be slowed or foregone.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Undertake research and analysis of emerging issues
2001	Determine research priorities for future research. (FY 2001 Performance Goal 1.1(e)).
2000	Research and analysis have been ongoing.
1999	Research and analysis have been ongoing.

Performance Goal 3.4: Disseminate research findings as completed.

Performance Measure: Publication of completed research findings in accordance with OFHEO plans and policies.

Means and Strategies:

OFHEO encourages publication and presentation of research and analysis to increase public understanding of the housing finance system. OFHEO emphasizes timely publication of reports, staff studies and other analyses by OFHEO and publication or presentation by its staff of papers, studies, or articles, providing empirical research and policy analysis of emerging issues and important topics related to the housing finance system and the Enterprises. Timing of the completion of research and analysis projects in OFHEO's research plan for FY 2002 will depend on the complexity of the issues examined, the availability of data and other information, and competing research and analysis needs and priorities, which may change as new issues emerge during the year. When projects are completed, after consideration of the proprietary nature of certain information, OFHEO will develop a plan for the timely dissemination of their findings through a variety of means, such as OFHEO reports, staff studies, OFHEO's annual Report to Congress or other OFHEO publications; speeches or testimony by the Director or other OFHEO officials; OFHEO's web site; and presentations or publications by OFHEO staff.

THIS IS A NEW PERFORMANCE GOAL. RESEARCH AND ANALYSIS PAPERS HAVE BEEN PUBLISHED AND PRESENTED DURING PRIOR YEARS.

Performance Goal 3.5: Enhance awareness of Enterprise risks and activities.

Performance Measure 3.5(1): Disclose information related to Enterprise compliance with the revised minimum capital regulation.

Performance Measure 3.5(2): Disclose information related to Enterprise compliance with risk-based capital standard. (when fully enforceable)

Means and Strategies:

OFHEO will disclose or require disclosure of appropriate information about each Enterprise's compliance with the minimum standard in each quarter.

OFHEO's risk-based capital standard will be fully enforceable for the first time a year after the risk-based capital rule is effective. When OFHEO makes final capital classifications for the Enterprises for a quarter, OFHEO will make appropriate disclosure of additional information about each Enterprise's compliance with the risk-based capital standard in that quarter.

OFHEO will also conduct an analyses of appropriate disclosure of information about Enterprise risks and activities to expand public awareness of the financial health of the Enterprises.

THIS IS A NEW PERFORMANCE GOAL.

Performance Goal 3.6: Communicate effectively with all stakeholders on regulatory issues.

Performance Measure: Consider and respond appropriately to all Congressional inquiries within 7 days.

Performance Measure: Consider and respond appropriately to all public inquiries within 7 days

Means and Strategies:

OFHEO will continue to expand its communications with Congress to ensure that legislators have an understanding of the condition and activities of the Enterprises as well as OFHEO's operations, proposals, and regulatory activities. In addition to providing

testimony and reports to Congress, OFHEO will continue to strengthen its existing and develop new relationships with the legislative branch.

OFHEO will respond appropriately to public inquiries regarding the Enterprises as well as OFHEO's operations, proposals and regulatory activities to ensure appropriate transparency. OFHEO representatives will continue to speak at industry forums to provide information about the secondary mortgage market, the Enterprises, and OFHEO's regulatory role.

OFHEO will continue to use its web site to disseminate timely OFHEO testimony, speeches, reports to Congress and other documents. This gives interested parties ready access to information as they need it. OFHEO will also continue to respond timely and effectively to inquiries from Congress and the public.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Respond to all inquiries from Congress and the public within 7 days.
2001	Respond to all inquiries from Congress and the public within 15 days. (FY 2001 Performance Goal 2.2(b)).
2000	Responsive to Congress and the public. Data not collected.
1999	Responsive to Congress and the public. Data not collected.

STRATEGIC OBJECTIVE 4: CONTRIBUTE TO FEDERAL EFFORTS TO PROMOTE EFFICIENT AND EFFECTIVE FINANCIAL MARKETS AND HOMEOWNERSHIP.

In recent years, new technologies, consolidation, and new approaches to pricing and managing financial risks have transformed the U.S. financial system and made safety and soundness regulation of financial institutions increasingly complex. The Enterprises have become the dominant firms in the housing finance markets and are increasingly important participants in the financial system as a whole. These developments have important implications for the Federal policy objectives of promoting the efficiency of the financial system and mortgage markets, ensuring the safety and soundness of the Enterprises, increasing homeownership, and enhancing the availability of affordable housing. OFHEO will work with other Federal agencies to coordinate efforts to analyze current trends, understand their implications for federal policy objectives, identify and analyze policy options, share regulatory knowledge and expertise, and promote regulatory best practices related to safety and soundness examination issues.

Performance Goal 4.1: Cooperate with other Federal financial regulators on regulatory issues.

Performance Measure 4.1(1): Initiate interactions with other regulators on emerging trends and issues identified in FY 2001.

Performance Measure 4.1(2): Respond within 30 days to requests from other Federal agencies for information about housing finance markets and the Enterprises.

Performance Measure 4.1(3): Participate in on-going task forces and forums with other regulatory agencies.

Means and Strategies:

In FY 2002, OFHEO will support interagency efforts to identify and analyze emerging trends and policy issues related to housing finance, homeownership, and affordable housing, as well as broad public policy issues affecting the Enterprises. OFHEO will participate in and host seminars, brown-bag lunch presentations, and other informal meetings of federal and nonfederal researchers, analysts, and examiners, and may sponsor more formal meetings.

To support OFHEO's research and analysis, the Office is developing a comprehensive repository of data on housing finance markets and the forms of federal credit assistance—direct loans, loan guarantees, insurance, and government-sponsored enterprises (GSEs)—that promote homeownership and affordable housing. OFHEO anticipates using this repository to provide information to other federal agencies, as requested, to support ongoing federal research needs. OFHEO plans to request funding in the future to implement this repository of housing and mortgage activity described in OFHEO's Strategic Plan.

However, the FY2002 budget request does include funds for a new large-scale server and tape back-up facility. Without this investment, OFHEO's ability to provide useful and timely analysis and information to other Federal Regulators and agencies will be severely constrained by available computer hardware. This is described in more detail in the introductory section.

OFHEO will also continue to participate in a number of interagency task forces and forums related to housing finance, safety and soundness regulation, and housing, such as: the Interagency Task Force on Fair Lending, the Interagency Task Force on Predatory Lending, the Ad Hoc Credit Scoring Group, the HUD GSE Working Group, the Working Group on Mortgage Fraud, the GSE Examination Council, the Federal Financial Regulators Results Act Working Group, and the Federal Financial Institutions Examination Council (FFIEC) Information Systems Subcommittee.

As described in Performance Goal 3.6, OFHEO will continue to expand ways to communicate with all stakeholders. Through improved interaction with stakeholders, OFHEO will continue to stay abreast of private sector efforts to promote efficiencies in the market, expand homeownership, and achieve other public policy goals, will help ensure that public policy development takes private sector efforts into account. An example is the Mortgage Industry Standards Maintenance Organization (MISMO), established by the industry to coordinate Internet-based efforts to standardize common business transactions in the mortgage industry.

Related FY 2001 Goal and Prior Year Performance Information:

2002	Cooperate with other Federal financial regulators on regulatory issues.
2001	Work with HUD on regulatory issues of a common interest. (FY 2001 Performance Goal 2.2(c)).
2000	Cooperation has been ongoing.
1999	Cooperation has been ongoing.

Human Resources Strategy: *Ensure OFHEO's human resources efficiently support the regulatory mission.*

OFHEO management recognizes that OFHEO's workforce is a critical foundation for attaining all four of its strategic objectives. A skilled, motivated and diverse workforce, with the unique talents and abilities required to oversee the government sponsored enterprises is key to OFHEO's success. This same workforce continues to be in high demand nationwide. OFHEO's small size and its specialized information systems, and financial analysis and economics requirements make recruitment and retention of these highly specialized staff a priority and a challenge. OFHEO's experience with staff turnover and the associated erosion of depth in key mission-related areas makes it necessary to ensure that OFHEO's small staff has sufficient breadth and depth to carry out the full range of duties and minimize disruption during staff turnover.

Performance Goal 5.1: Ensure that OFHEO's performance appraisal system provides incentives for staff to achieve OFHEO's strategic goals.

Performance Measure: OFHEO staffs' Job Performance Plans are tied to OFHEO's annual performance plans and strategic plans.

Means and Strategies:

OFHEO staffs' pay adjustments are not automatic but are based on their performance. Performance expectations are described in staffs' Job Performance Plans. A recent update to OFHEO's performance management system ensured that every employee's performance requirements are tied directly to their group's responsibilities to accomplish the goals in OFHEO's Annual Performance Plans and Strategic Plan. These Job Performance Plans are renewed or revised at least annually to ensure an appropriate link with OFHEO's Strategic Plans and Annual Performance Plans, which are shared with every employee.

THIS IS A NEW PERFORMANCE GOAL. STAFFS' JOB PERFORMANCE PLANS HAVE BEEN TIED TO OFHEO'S ANNUAL PERFORMANCE PLANS AND STRATEGIC PLAN IN PRIOR YEARS.

Performance Goal 5.2: Ensure that OFHEO’s staff maintain expertise in their professions by maintaining and enhancing their knowledge and skills necessary to regulate large complex financial institutions and achieve OFHEO’s goals.

Performance Measure 5.2(1): OFHEO staff participate in professional development activities or training programs averaging two per staff member per year.

Performance Measure 5.2(2): OFHEO staff participate in interagency forums, or joint projects with other financial regulators or professional groups averaging one per staff member per year.

Means and Strategies:

OFHEO must continue to invest in staff development in order to maintain its small size and enable the staff to perform their jobs effectively. This investment ensures that staff stay abreast of changes in the Enterprises and in the financial, regulatory and technological environment in which the Enterprises and OFHEO operate, and stay current in their professions. For OFHEO to carry out its mission in regulating large, complex financial institutions with a small staff, the staff must be current in the breadth and depth of the skills they need so that OFHEO can achieve its goals.

THIS IS A NEW PERFORMANCE GOAL OFHEO-WIDE. IN FY 2001 AND PRIOR YEARS, A SIMILAR GOAL WAS ESTABLISHED FOR EXAMINATION STAFF. STAFF THROUGHOUT OFHEO HAVE PARTICIPATED IN PROFESSIONAL DEVELOPMENT ACTIVITIES, TRAINING, INTERAGENCY FORUMS OR JOINT PROJECTS, BUT DATA ARE NOT AVAILABLE FOR PRIOR YEARS.

Performance Goal 5.3: Ensure OFHEO’s compensation system and complementary human resources programs are comparable to other Federal financial regulators and other employers with which OFHEO competes for talent.

Performance Measure 5.3: No more than 10% of applicants decline a job offer because OFHEO’s compensation system and complementary human resources programs are less attractive to the applicant than those of another Federal financial regulator.

Means and Strategies:

OFHEO must attract employees who possess specific skills in a variety of areas, but particularly information technology professionals, including software engineers, data analysts and data warehousing specialists. OFHEO must also attract economists with unique skills related to financial markets and housing, and financial modeling specialists

with financial instrument modeling expertise and a thorough understanding of the financial and housing markets. To acquire this expertise, OFHEO will conduct effective outreach through targeted recruitment efforts in order to recruit a diverse, high-quality workforce. Skilled support staff are critical as well to the smooth functioning of OFHEO's operations and to the effective productivity of its team of specialists. In these competitive labor markets in the public and private sectors, OFHEO must have available competitive salaries and benefits, and family-friendly programs such as flexible work hours and telecommuting. By law, OFHEO is required to maintain compensation comparability with the other Federal financial regulators. OFHEO currently offers the federal benefits package offered to all federal employees, although the other Federal financial regulators offer a much wider range of benefits and options for their staffs.

OFHEO must not only recruit and support its vital human infrastructure, but must also retain these talented individuals. Due to the high demand for particular skills, OFHEO must focus retention efforts on areas such as information technology. OFHEO will continue to make effective use of job advancement opportunities and recognition of excellence through its performance management system. Improving the quality of the work environment for employees enables them to balance the needs of work and family and is an important benefit to assist us in maintaining a quality workforce. OFHEO will strive to meet the needs, expectations and preferences of our employees by enhancing our investment in family-friendly programs, including flexible work hours, leave sharing, casual dress, employee wellness programs, special award programs, and other benefits. OFHEO will continue to promote a healthy environment through its Transportation Incentive Program, which encourages employees to use public transportation.

THIS IS A NEW PERFORMANCE GOAL. DATA ARE NOT AVAILABLE.