# Office of Federal Housing Enterprise Oversight

# **Annual Performance Plan**

FY 2001



February 9, 2000

# OFHEO's FY 2001 ANNUAL PERFORMANCE PLAN

#### **OVERVIEW**

#### 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, its operations represent no direct 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 package 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.

Fannie Mae and Freddie Mac are congressionally chartered, publicly owned corporations whose shares are listed on the New York Stock Exchange. Under terms of their GSE charters, they are exempt from state and local taxation and from registration requirements of the Securities and Exchange Commission. The Secretary of the Treasury is authorized to extend up to \$2.25 billion in credit to each Enterprise. In addition, the market perceives there to be an implied government guarantee on the financial obligations of the Enterprises. OFHEO was established to ensure capital adequacy and financial safety and soundness of the Enterprises so that they could continue their public mission with minimum risk of cost to the taxpayer.

# Development of the Annual Performance Plan

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 our performance against our goals by reference to changes in the percent of institutions that meet a standard is not very meaningful for OFHEO. Second, OFHEO was created less than seven years ago during the reinvention era. As a relatively new office, 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 is to establish, monitor and enforce regulations and guidelines that the Director believes will ensure that both Enterprises are adequately capitalized and operate in a safe and sound manner. It is these regulations and guidelines, 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 or not its actions result in safe and sound operations and adequate capital levels at each Enterprise.

One of OFHEO's top priorities is to complete the risk-based capital regulation, which will enable the Office to apply risk-based capital standards 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 has 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 in both its Strategic and Annual Performance Plans.

### Relationship Between the Strategic Plan and the Annual Performance Plan

#### Strategic Plan

There are four major components to OFHEO's Strategic Plan: (1) mission statement, (2) strategic goals, (3) strategic objectives and (4) strategies to achieve strategic goals.

OFHEO's *mission statement*, like its congressional mandate to ensure the safety and soundness of Fannie Mae and Freddie Mac, is very focused. The mission statement emphasizes protecting the taxpayer, contributing to the strength and vitality of the nation's housing finance system, and providing independent and fair regulation of the Enterprises. Since its inception, OFHEO has structured its regulatory activities around each of these tenets.

From its mission statement, the Office has developed three *strategic goals* which will enable it to accomplish its mission. These strategic goals provide long-term direction to the Office. OFHEO further defines its strategic goals with accompanying *strategic objectives*. The strategic objectives represent measurable goals that OFHEO plans to accomplish during the period covered by the Strategic Plan which are representative of the progress toward achieving its strategic goals. The final component of OFHEO's Strategic Plan is comprised of specific *strategies to achieve strategic goals*. The resulting Strategic Plan includes the four components mentioned above as well as external factors that may affect OFHEO's regulation of the Enterprises.

# Minor adjustments to the Strategic Plan

During FY 1999, OFHEO made minor adjustments to its FY 1998-2003 Strategic Plan. An additional Strategic Objective was added to achieve OFHEO's second Strategic Goal. Since OFHEO first drafted its Strategic Plan, it became clear that achieving the Office's second Strategic Goal, "To promote an efficient secondary mortgage market through an independent and

balanced approach to regulatory oversight of the Enterprises", requires achieving this additional strategic objective: To promote transparency in the Secondary Mortgage Market. In addition, clarifications were made to the wording of Strategic Objectives 1.1-1.4, 2.2, 3.1 and 3.2. Page 8 of this FY 2001 Performance Plan indicates the adjustments to the Strategic Objectives in OFHEO's original Strategic Plan. The FY 2001 Performance Plan describes OFHEO's performance goals, measures, and means and strategies to achieve the additional and amended Strategic Objectives.

#### **Annual Performance Plan**

The FY 2001 Annual Performance Plan describes what OFHEO will do in FY 2001 with the resources requested 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 and (3) means and strategies some of which contain output goals and measures.

The *strategic objectives* and measures included in OFHEO's Strategic Plan are the starting point in the FY 2001 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 goals* in the Annual Performance Plan link directly to each strategic objective included in OFHEO's Strategic Plan. The performance goals were chosen because they are intermediate outcomes or outputs necessary to achieve the strategic objectives which, in turn, lead to the accomplishment of a corresponding strategic goal. The Annual Performance Plan only includes those performance goals that OFHEO expects to achieve during FY 2001. In many cases, these represent incremental progress toward achieving the strategic objectives and goals. Their achievement also depends on OFHEO's achieving its FY 2000 performance goals.

The third major component of the Annual Performance Plan consists of *means and strategies* and the associated *output goals and measures*. These are the key activities and actions that lead to the attainment of each performance goal. Although there are many other outputs and activities which occur during the process of achieving a given performance goal, the output goals and measures included in the Annual Performance Plan are the best indicators to OFHEO management that the Office is making progress to achieve its performance goals. As part of the means and strategies section, a narrative is provided that describes the linkages between the performance goal and strategic objective, the significance of the goal and, where significant, the processes and technologies used.

As required by the Government Performance and Results Act of 1993, OFHEO will submit a performance report for FY 2001 by March 31, 2002, to discuss the Office's actual performance as compared with the FY 2001 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 in a manner which will enable the Office to achieve its annual performance goals.

#### **Program Evaluations**

OFHEO regularly evaluates its programs and progress towards achieving its goals in an ongoing manner throughout the year. The Office utilizes regular management meetings as well as 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 and reallocate Office resources to meet its strategic goals. In its review, OFHEO uses cost-effectiveness as one of the primary criteria for determining the overall effectiveness in the achievement of the Office's mission.

With respect to external evaluations, OFHEO's enabling statute requires the General Accounting Office (GAO) to conduct two audits of OFHEO's operations. GAO's first audit was conducted during FY 1995 and focused on OFHEO's development and implementation of its primary management systems. In its report, GAO concluded that OFHEO had made significant progress in establishing such systems and that the Office had initiated its primary mission-related programs -- assessing the capital adequacy of the Enterprises and conducting examinations of Enterprise operations. OFHEO has used this report to complement internal evaluations of its operations.

GAO's second audit was conducted in the summer of 1997 with the final report released in October 1997. This report focused on (1) identifying the reasons why OFHEO has not issued final risk-based capital standards for the Enterprises, and (2) assessing OFHEO's implementation of its safety and soundness examination responsibilities. GAO correctly identified the challenges OFHEO faces in completing the stress test. The major reason GAO cited for the delay was OFHEO's decision to develop its own modeling capabilities to implement the stress test. OFHEO has developed a Financial Simulation Model that is used to implement the stress test in the proposed risk-based capital regulation that has been drafted. OFHEO believes that it is necessary to independently evaluate the Enterprises' risks.

GAO also recommended that OFHEO move toward a more timely examination cycle, while suggesting that additional resources would be needed to accomplish this. OFHEO agreed with GAO's recommendation and had already planned to alter its examination cycle. Beginning in January 1998, OFHEO moved to a comprehensive risk-based annual examination and delivered its first report of examination to the boards of directors of the Enterprises in February, 1999. Additional resources were allocated to the examination program to ensure that this could be accomplished.

In July, 1998, GAO followed up on OFHEO's progress in implementing their recommendations. Their letter noted that OFHEO had largely completed the development of the stress test but faced three significant challenges. First, OFHEO lost key senior staff in 1998, which GAO noted could delay the proposed rule's development. Second, the proposed plan to provide technical details to federal agency staff to facilitate the inter-agency clearance process was cancelled by OMB, which could lengthen the time it takes for OMB approval. Third, because the Financial Simulation Model and the stress test are complex, the public comment process may be lengthened.

OFHEO agreed that the Office faced significant challenges. GAO recognized that OFHEO was addressing these first two immediately by distributing the responsibilities of the departing officials to the existing OFHEO staff and contractor personnel as appropriate, advertising vacant positions, and working informally during the summer of 1998 with Treasury and HUD staff to explain the technical components of the stress test.

GAO also found that OFHEO made progress in implementing a revised financial safety and soundness examinations program for the Enterprises.

OFHEO's program is evaluated in an ongoing way by its customers and stakeholders. During FY 1999, OFHEO issued the second Notice of Proposed Rulemaking on risk-based capital. This provided an opportunity for public comment on the stress test and its analytical methodology and techniques. Through the rulemaking process, OFHEO expects to receive feedback from stakeholders on broad and specific aspects of the stress test. This will validate OFHEO's work in some areas and identify opportunities for improvement in other areas. During FY 1999, as described in Performance Goal 1.4(c), OFHEO conducted its first survey of the Enterprises to enhance the effectiveness of OFHEO's examination program. The survey showed that OFHEO accomplished its examination objectives. OFHEO will continue to elicit this type of feedback in the future to ensure the effectiveness of the examination program.

#### 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 FY 2001 Budget**

The rapid growth and complexity of the Enterprises' operations are stressing 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 doubled to over \$2 trillion. To provide OFHEO with sufficient capacity to ensure effective and dynamic oversight of the Enterprises, OFHEO has requested \$25.8 million. This is an increase of 32 percent over the FY 2000 budget request of \$19.5 million.

OFHEO's resources have not kept pace with the size and complexity of the Enterprises' operations. Resource constraints have forced OFHEO to move slower than expected in promulgating risk-based capital requirements. Once they are implemented, OFHEO will need additional capacity to ensure that the risk-based capital standard will appropriately reflect, in a timely fashion, new innovations in the marketplace that can significantly impact the risk profile of the Enterprises. The FY 2001 Performance Goals and their accompanying means and strategies describe the resources and technologies necessary to achieve these goals.

The FY 2001 budget request supports 116 full time positions and 118 full time equivalent workyears. This is an increase of 23 permanent positions and workyears over the prior year. The request targets increased staffing to areas in which a lack of capacity leaves the Office most

vulnerable in the achievement of its mission. Of the 23 new positions, nine would perform work currently provided by temporary staff and contractor support.

The FY 2001 budget request includes over \$2.7 million to maintain and strengthen OFHEO's Research System Environment (the computer hardware and software platform needed to run the stress test and other computationally sensitive analyses) and associated applications, and to support changes necessary to this environment as the risk-based capital regulation is modified. The funds will also support the development of a prototype of a proposed examination workstation application that will integrate qualitative and quantitative assessments of risk simultaneously.

The request also includes \$1 million to secure integrated personnel, payroll, procurement, budget and accounting systems from a single federal agency providing these services on a reimbursement basis. Currently OFHEO is serviced by a number of federal agencies whose systems are not linked. This requires manual reconciliation of data and duplication of data entries. An integrated system would comply with the new single data entry concept for financial systems established by the Joint Financial Management Improvement Program (JFMIP). The new system also supports the Administration's goal of getting an unqualified audit opinion on the government-wide financial statements.

The resources requested in OFHEO's FY 2001 budget 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; ongoing development and implementation of the risk-based capital standard and associated rulemaking; 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 we describe our 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.

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 our mission and of the operation of the Enterprises that we regulate. The Office will continue to implement cost-effective opportunities to improve the efficiency of the comprehensive Enterprise Data Warehouse and applications software for use in the risk-based capital standard and surveillance and monitoring in the examination program. These are reflected in the FY 2001 performance goals.

Staff performance appraisals and merit pay increases will continue to reflect the accomplishment of OFHEO's performance goals. As for prior year plans, staff will become knowledgeable of the OFHEO FY 2001 Performance Plan, and their own role in achieving the goals. Through the Performance Evaluation Management System, achievement of the Plans will be reflected in the performance standards upon which evaluations are based.

OFHEO will continue to invest in staff through skill-based training. Staff will keep current on up-to-date trends and maintain a skill level of excellence through training, working with other financial regulators to observe large financial institutions, and by participating in regulatory and professional forums.

During FY 2001, 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 our goals.

#### **OFFICO'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.

OFHEO has three strategic goals which will enable us to realize our mission. 11

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

Strategic Objective 1.1: To ensure that the Enterprises are adequately capitalized by issuing and

implementing the risk-based capital requirements. 11

Strategic Objective 1.2: To ensure that the Enterprises meet applicable capital standards. "

Strategic Objective 1.3: To ensure that each Enterprise operates in a safe and sound manner by

conducting a continuous, risk-based examination of each Enterprise. 11

Strategic Objective 1.4: To ensure that the Enterprises respond appropriately to examination issues.  $\underline{\nu}$ 

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.

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

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

Strategic Objective 2.2: To ensure an efficient, effective and balanced approach to regulation of the

Enterprises. 1/

Strategic Objective 2.3: To promote transparency in the secondary mortgage market.  $\frac{11}{2}$ 

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

Strategic Objective 3.1: To ensure that executive compensation at the Enterprises is not excessive. 11

Strategic Objective 3.2: To ensure that the Enterprises do not violate other provisions of their Charter

Acts or of OFHEO's statute. 1/

Minor adjustments to the Strategic Objectives in the FY 1998 – 2003 Strategic Plan are underlined, as described in the Overview Section.

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 2001, OFHEO expects to publish a final rule implementing the risk-based capital standard. Although this standard will not be binding until 12 months after publication, OFHEO plans to begin issuing pro forma quarterly capital calculations after publication. With the publication of the final rule, OFHEO will commence the ongoing activities associated with keeping the rule current and effective; evaluating possible changes to the capital standard that may be necessary to reflect developments in the Enterprises, the mortgage finance industry, and the economy; and enhancing the underlying analytical software to increase its explanatory power as a risk assessment tool.

The second regulatory tool is the authority to conduct safety and soundness examinations of the Enterprises' operations. In FY 2001, OFHEO will be finishing its third annual (calendar year (CY) 2000) comprehensive risk-based examination of the Enterprises and will be working on its CY 2001 examination. Capital standards and examinations are mutually reinforcing and complimentary tools. Information and findings from one become integrated with the other in an iterative process. OFHEO has identified five strategic objectives with supporting performance goals for FY 2001 that will enable the Office to reach this strategic goal.

Strategic Objective 1.1: To ensure that the Enterprises are adequately capitalized by issuing and implementing the risk-based capital requirements.

Measure:

Promulgation of risk-based capital regulation.

Performance Goal 1.1(a): Publish final risk-based capital regulation.

Performance Measure:

Publication of rule in Federal Register.

Target:

January 2001.

Means, Strategies and Performance Goal Explanation (1.1(a))

OFHEO plans to close the comment period for the NPR on March 10, 2000. Because this is an important and complex regulation that will affect how the mortgage industry views the relationship between risk and capital, OFHEO extended the comment period twice after considering the requests from several comments. These extensions, which lengthened the original four month comment period eleven months, will provide ample opportunity for all interested parties to analyze the proposal and

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

submit their comments so that OFHEO can move toward implementation of the final rule.

Preparation of the draft final rule will involve the review and analysis of all comments, which are expected to be extensive, including the economic and financial analysis of the implications of those comments, drafting the final rule, and fine tuning the risk-based capital stress test and its supporting software to reflect the final rule. Given delays in the clearance of the second notice of proposed rulemaking on risk-based capital (as GAO expected and described in its July 1998 letter), and due to the extension of the public comment period in response to commenter requests, publication of the final rule will likely be postponed until FY 2001. At this time OFHEO anticipates submitting a Final Rule to OMB by the end of FY 2000. Assuming a three-month period for OMB review and clearance, OFHEO would publish the final rule in January, 2001.

As of this writing, NPR2 is still in its public comment period. This plan retains FY 2000's assumption that changes based on the comments will not require a third Notice of Proposed Rulemaking. If OFHEO determines that significant changes are not necessary, OFHEO will publish the risk-based capital regulation as a Final Rule. If significant changes are necessary, then OFHEO will be required to repropose the rule and extend a new comment period. Given that a new proposed rule might imply significant changes to the stress test involving substantial additional economic and financial research and stress test software enhancement, preparation of a new proposed rule may take longer than preparation of a draft final rule. In the event it is required, OFHEO would expect to send a new proposed rule to OMB for review in late FY 2001. The timing of this reproposal would depend on how extensive and complex the changes would be.

In any case, before publication of the Final Rule, OFHEO would also need to complete and document a final version of the software implementing the stress test that reflects changes made based on comments.

To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

Performance Goal 1.1(b): To provide the

To provide the Enterprises' with an opportunity to integrate the stress test into their risk management systems before the risk-based requirement is used to

determine their capital classification.

Performance Measure:

Issue Pro Forma Capital Calculations

Target:

Quarterly

Means, Strategies and Performance Goal Explanation (1.1(b))

For the first year after the publication of the final rule, OFHEO will issue pro forma risk-based capital calculations quarterly. These pro forma calculations will provide the Enterprises with an opportunity to integrate the stress test into their internal risk management systems before they are required to meet the risk-based standard.

The process used for these pro forma calculations will be the one that will be used when risk-based capital requirements are incorporated into the quarterly capital classifications. The rule anticipates that OFHEO will receive quarterly data from each Enterprise within the first 30 days after the quarter's end. Within a total of sixty days after the quarter's end, OFHEO will review the data for consistency and completeness, develop approaches to address new products and activities, use the stress test software to determine a proposed capital calculation for each Enterprise, and notify each Enterprise of the proposed calculation. The Enterprises have 30 days to comment on the proposed capital calculation. Within the following 30 days, OFHEO will notify the Enterprises of the final capital calculation.

This ongoing responsibility takes a minimum of 120 days for each quarter's calculation. OFHEO expects that as the Office and the Enterprises become increasingly familiar with the process, they will work proactively to identify potential issues, such as the treatments of new products, even before that quarter ends and the Enterprises submit their quarterly data. For the second and subsequent quarterly capital calculations after a new product is introduced, its treatment in the capital calculation may be enhanced as new empirical information and analytical techniques can be incorporated. As a result, OFHEO staff could be working on issues raised related to three or four quarters' portfolios for each Enterprise at the same time.

OFHEO anticipates that ongoing support of the risk-based capital rule, including extensive interaction with the regulatees and the public regarding incorporation of new products and rule enhancement, will require a higher level of staff resources than in prior years, as requested in the FY 2001 budget.

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

To achieve this goal, OFHEO will also need to maintain and update the software underlying the risk-based capital model. This activity is more fully explained in Performance Goal 1.1(d).

Performance Goal 1.1(c): To ensure that the Risk-Based Capital Model and the Risk-Based Capital Rule are up to date.

<u>Performance Measure</u>: New products and activities are identified and evaluated,

and appropriately included in the quarterly capital calculation in the quarter in which they first appear.

<u>Target</u>: 100%

Means, Strategies and Performance Goal Explanation (1.1(c))

The mortgage finance industry and its two major players (OFHEO's regulatees) are evolving rapidly. Every quarter, OFHEO must evaluate new debt instruments, hedging vehicles, credit enhancement programs, and/or lending programs introduced by the Enterprises. For OFHEO to regulate the Enterprises effectively, the risk-based capital standard needs to be responsive to innovations in the markets and the Enterprises. OFHEO will need to identify new Enterprise products and activities, evaluate their impact, and incorporate them in the risk-based capital calculation as appropriate in the quarter in which the new activity first appears. In some cases, these activities may be accommodated in the existing stress test structure, as provided for in the risk-based capital rule. In addition, OFHEO may need to revise the stress test from time to time and propose enhancements through the regulatory process to ensure that the regulation addresses changing Enterprise business activities and practices. Each change in the stress test requires revision of the stress test software and its documentation, and an adjustment to the Enterprises' data submissions.

OFHEO anticipates that ongoing support of the risk based capital rule, especially for treatments of new activities and business practices, will require extensive interaction with the regulatees and the public. When new treatments are developed, OFHEO will make them known by the time the risk-based capital calculations are made final. OFHEO will use a variety of media, such as web-site postings, federal register announcements, roundtable discussions and public hearings to make this information known to the public.

OFHEO anticipates that ongoing support of the risk-based capital rule will require, on an ongoing basis, a higher level of staff resources than in FY 2000, as proposed in the FY 2001 budget request.

To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

Performance Goal 1.1(d): To update and enhance the Risk-based capital stress test software and data submission process to support the risk-based capital calculation and the risk-based capital rule,

<u>Performance Measure</u>: Complete and document changes to the risk-based capital

stress test software necessary to implement the stress test in

the final rule.

Target: January 2001

<u>Performance Measure</u>: Collaborate with the Enterprises to ensure that the

Enterprise data submission and delivery process for the stress test specified in the final rule makes necessary data available to OFHEO within 30 days after the end of a

quarter.

Target: January 2001

<u>Performance Measure</u>: Develop efficiencies in the analytical power of the stress

test software.

Target: On an as-needed basis

#### Means, Strategies and Performance Goal Explanation (1.1(d))

To effectively implement the risk-based capital standard, the risk-based capital stress test and the data submissions will need to be updated on an ongoing basis. Before the rule is made final, OFHEO will need to complete and document the second version of the stress test software to reflect the changes made based on comments from the rulemaking process. Effective with the publication of the rule, OFHEO will be making quarterly calculations of risk-based capital for each Enterprise. To meet the timeframe described in Performance Goal 1.1(b), OFHEO will work with the Enterprises to enhance data specifications and Enterprise data screening techniques. OFHEO expects that with this pro-active collaborative development, the Enterprises should be in a position to submit, within 30 days after the quarter begins, complete and accurate data that require modest OFHEO follow-up.

After the stress test is operational, the risk-based capital effort will focus on maintaining and upgrading the underlying software to increase its efficiency and analytical power. These upgrades will be necessary to keep pace with the growing

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

complexity of the Enterprises' risk profiles. The stress test software will also need to be updated and documented to facilitate the incorporation of new products and activities in the capital classification quarterly, and the periodic updates to the risk-based capital regulation as it goes through the rulemaking process in future years.

OFHEO anticipates that ongoing support of the risk-based capital rule and underlying software, including extensive interaction with the regulatees and the public regarding rule enhancement, will require, on an ongoing basis, a higher level of staff resources than in FY 2000, as reflected in the FY 2001 budget request.

Performance Goal 1.1(e): To ensure that emerging risk factors are researched, analyzed and appropriately incorporated into the stress test.

<u>Performance Measure</u>: Analyze the impact of using credit scores in determining

the credit risk of subprime mortgages.

Target: September 2001

<u>Performance Measure</u>: Additional research priorities determined.

Target: September 2001

Means, Strategies and Performance Goal Explanation (1.1(e))

OFHEO must study how changes in the market and in industry practices impact the capital adequacy of the Enterprises. Examples include the recently introduced industry use of credit scores to help assess credit risk and the Enterprises early ventures into the sub-prime market, which may become a regular part of their business.

OFHEO must undertake research to determine if the inclusion of credit scores in the risk-based capital standard is appropriate for determining the capital adequacy of the Enterprises. In particular, as the Enterprises move more aggressively into the subprime mortgage market, the inclusion of credit scores may be necessary to adequately assess the risk of subprime mortgages. During FY 2001, OFHEO will research and analyze the implications of using credit scores for purposes of determining the credit risk associated with mortgages purchased by the Enterprises.

OFHEO expects to receive comments on the rule with suggestions for development of enhanced treatment of various risk factors. OFHEO anticipates that after the rule is implemented, the Office will study and consider many of these comments for inclusion in the risk-based capital standard at a future date. During FY 2001, OFHEO

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

would develop priorities on these topics. After research and analysis, and accompanying software development as described in

Performance Goal 1.1(d), over time, OFHEO would propose changes to the risk-based capital standard through the rulemaking process.

As additional risks emerge, and as experience provides additional data for empirical analysis, OFHEO will research these risks to determine whether they should be incorporated into the stress test.

This research and analysis is necessary on an ongoing basis to ensure that the risk-based capital standard will reflect accurately the changes in risk and the improved treatment of risk. OFHEO anticipates that ongoing support of research and analysis for the risk-based capital standard will require, on an ongoing basis, extensive interaction with the regulatees and the public, and a higher level of staff resources than in FY 2000, as reflected in the FY 2001 budget request.

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

Strategic Objective 1.2: To ensure that the Enterprises meet applicable capital standards.

Measure: Comparison of actual capital to required capital standard on

at least a quarterly basis.

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

<u>Performance Measure</u>: Comparison of actual capital to required capital standard on

at least a quarterly basis.

<u>Target</u>: Ratio of 1 or greater.

<u>Performance Measure</u>: Percent of time acceptable capital plans are obtained from

the Enterprises when standards are not met.

Target: 100 percent.

Means and Strategies: Output Goals and Performance Goal Explanation (1.2(a))

1. Complete quarterly capital classifications within required timeframes.

Output Measure: Classification letters to the Enterprises.

Target: Within timeframes established in OFHEO's capital

regulations.

Explanation: For FY 2001, capital classifications will continue to be made using the minimum capital standards, as required by law. Each Enterprise submits information necessary for OFHEO to determine the appropriate capital level for that Enterprise within 30 days after each quarter-end date. OFHEO computes the required capital level for each Enterprise based on its on-balance sheet assets and off-balance sheet obligations, and then compares the required capital level with the actual level held by each Enterprise. An Enterprise is deemed "adequately capitalized" if its actual capital level exceeds the required capital level determined by OFHEO. In accordance with the minimum capital regulation, OFHEO then notifies each Enterprise of its proposed capital classification. The Enterprises have up to 30 days to notify OFHEO of any discrepancies they may have with the classification. Once OFHEO either receives notification from the Enterprises that they have no disagreement with the classifications or the 30 days elapse, OFHEO makes final the capital classifications for the Enterprises for that quarter.

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

Strategic Objective 1.3:

To ensure that each Enterprise operates in a safe and sound manner by conducting a continuous, risk-based examination of each Enterprise.

Measure:

Completion of an annual examination report for each Enterprise which covers all risk areas.

Performance Goal 1.3(a):

To complete a comprehensive, risk-based annual examination for each Enterprise for CY 2000.

Performance Measure:

Deliver the CY 2000 report of examination to each Board

of Directors.

Target:

February 2001.

Means and Strategies: Output Goals and Performance Goal Explanation (1.3(a))

1. Complete field work on CY 2000 examination.

Output Measure:

Completed field work.

Target:

December 2000.

Explanation: OFHEO conducts its annual examinations on a calendar year basis. During FY 2001, OFHEO will complete its annual comprehensive risk-based examination of the Enterprises for CY 2000 and will be working on the CY 2001 examination. To ensure effective communication between OFHEO examiners and Enterprise management, OFHEO conducts quarterly meetings with Enterprise management to discuss interim findings, conclusions and recommendations associated with ongoing examination work. Field work on the annual examination is completed in December, and thereafter a Report of Examination is prepared and presented to the Board of Directors of each Enterprise.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

Performance Goal 1.3(b): To conduct a comprehensive, risk-based annual examination for each Enterprise for CY 2001.

<u>Performance Measure</u>: Develop and communicate CY 2001 examination strategies

and objectives to the Enterprises.

<u>Target</u>: By January 2001.

<u>Performance Measure</u>: Communicate interim findings and conclusions to each

Enterprise.

<u>Target:</u> Following quarter end.

Means and Strategies: Output Goals and Performance Goal Explanation (1.3(b))

Based upon ongoing monitoring, tracking and analysis of Enterprise financial data, information obtained during the previous examination, and frequent discussions with Enterprise management, examination strategies and objectives for the CY 2001 examination will be developed and communicated to the Enterprises in January 2001. Examination objectives will reflect OFHEO's assessment of risk at each Enterprise, and will therefore differ for each Enterprise.

OFHEO conducts its annual examination on a calendar year (CY) basis. During FY 2001, OFHEO will finalize its CY 2000 risk-based examination plan for each Enterprise. Also during FY 2001, OFHEO will conduct 75% of the field work for the CY 2001 risk-based examinations. To ensure effective communication between OFHEO examiners and Enterprise management and the Boards of Directors, OFHEO engages in routine meetings to discuss the upcoming examination plan, as well as interim findings and evaluations associated with ongoing examination work.

To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

Performance Goal 1.3(c): To conduct surveillance and monitoring, risk

assessment, and analysis.

Performance Measure:

Prepare surveillance and monitoring reports.

Target:

At least Quarterly.

Means and Strategies: Output Goals and Performance Goal Explanation (1.3(c))

1. Enhance the functionality of the surveillance and monitoring system to fully integrate the risk assessment process of the examination function.

Output Measure:

Enhanced functionality of the surveillance and monitoring

system.

Target:

September 2001.

Explanation: 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. The surveillance and monitoring system developed by OFHEO complements and supports the examination function by facilitating data retrieval and reporting. In FY 2001, OFHEO plans to pilot test a further enhancement of that system by integrating the systems for recording examination assessments with the data retrieval and reporting functionality. As proposed in the FY 2001 budget, OFHEO plans to conduct a feasibility study and pilot project to merge those systems through the use of integrated software products designed to fully utilize the data warehouse structure. Based on the results of those initial projects, OFHEO plans to commence a comprehensive project to enhance the functionality of the surveillance and monitoring system in future years. Those enhancements would permit the examination staff to combine the data mart facility of the data warehouse with the narrative assessments of the examination process to fully integrate the risk assessment process. As a result, OFHEO would develop an automated examiner workstation that encompasses the full range of oversight activities, including, for example, research, planning, testing, surveillance and monitoring.

To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

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

Measure:

Percent of examination issues identified for follow-up that

receive the appropriate dialogue and response.

Performance Goal 1.4(a):

To promote timely responses and corrective measures

for examination issues.

Performance Measure:

Percent of examination issues identified in the annual

Report of Examination that are not being appropriately

addressed.

Target:

0%

Means and Strategies: Output Goals and Performance Goal Explanation (1.4(a))

1. Complete transparency of the examination program including an active and timely dialogue, with Enterprise representatives, relating to the examination work and products.

Output Measure:

Percent of issues being considered during the

examination which are discussed with the appropriate

Enterprise representatives.

Target:

100%

Explanation: OFHEO believes the most effective way to evaluate the safe and sound operations of an Enterprise is to maintain continuous dialogue between OFHEO's examination personnel and the Enterprises. Throughout the annual examination, OFHEO explains its position and seeks input on its findings. Such discussions routinely occur during the examination program. In addition to routine discussions covering the examination work, OFHEO will regularly meet with senior Enterprise representatives to ensure a constructive dialogue is maintained at all levels. Through these regular communications, the Enterprises will be apprised of any developing issues or thinking by OFHEO's examiners at the earliest stage, thus allowing prompt response to any potential concerns, issues, or opportunities identified to enhance the Enterprise's operations. With OFHEO's continuous on-site examination work, any follow-up initiatives are monitored.

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

Performance Goal 1.4(b):

To communicate examination conclusions to the Boards of Directors and require their appropriate response, including any directives provided to the Enterprises' management.

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.

Means and Strategies: Output Goals and Performance Goal Explanation (1.4(b))

1. Issue the annual Report of Examination timely.

Output Measure:

Issuance of the annual Report of Examination

Target:

February 2001

2. Meet with the Board of Directors to discuss the conclusions in the annual Report of Examination.

Output Measure:

Meeting with the Board to discuss examination

conclusions.

Target:

First regularly scheduled Board meeting subsequent to the

issuance of the annual Report of Examination.

Explanation: OFHEO provides a copy of its annual Report of Examination to the Board of Directors of each Enterprise which covers the conclusions from the annual risk-based examination. Since the annual Report of Examination will be shared with the Board of Directors, the formal response is provided by the Board that includes a summary of any directives given to Enterprise management in response to examination issues.

To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

Performance Goal 1.4(c): To enhance the effectiveness of communications between OFHEO's examination staff and Enterprise

officials.

<u>Performance Measure</u>:

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.

Means and Strategies: Output Goals and Performance Goal Explanation (1.4(c))

1. Administer survey to the Enterprises.

Output Measure:

Completed surveys.

Target:

June 2001.

Explanation: To complement ongoing efforts to promote effective and open communication with the Enterprises, OFHEO will continue to administer the survey begun in FY 1999. The purpose of the survey is to solicit qualitative feedback from the Enterprises regarding the effectiveness of the examination program and the quality of communications. OFHEO will continue to evaluate surveys conducted by other federal regulators, other federal organizations as well as those used by certain private sector entities, as we revise our own survey.

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

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.

Measure:

Maintenance of ongoing monitoring and evaluation of Enterprise risks and activities through new program reviews, as well as

periodic reports and studies.

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.

Means and Strategies: Output Goals and Performance Goal Explanation (1.5(a))

# 1. Letters from the OFHEO Director to the Secretary of HUD.

Output Measure:

Issuance of letters.

Target:

Within 45 days of program request.

Explanation: The HUD Secretary has the authority to approve new programs in which the Enterprises wish to engage. Until OFHEO's risk-based capital standard is in place, OFHEO has the statutory responsibility to examine new programs for safety and soundness considerations. Specifically, if the Director determines that a new program would risk significant deterioration of the financial condition of an Enterprise, this determination would serve as a basis for the HUD Secretary to disapprove the program. OFHEO and HUD have developed a good working relationship in examining issues surrounding new program requests from the Enterprises.

To effectively regulate the Enterprises by ensuring that they are adequately

capitalized and operate in a safe and sound manner.

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.

Means and Strategies: Output Goals and Performance Goal Explanation (1.5(b))

1. In depth profiles – Overall assessment of the risk environment confronting the Enterprises that draws from the work conducted across OFHEO.

Output Measure:

Risk assessments and examination findings.

Target:

Quarterly.

Output Measure:

Capital assessments.

Target:

Quarterly.

Output Measure:

Production of OFHEO House Price Index (HPI).

Target:

Quarterly.

#### 2. Papers and reports.

Output Measure:

Production of papers and reports on relevant issues.

Target:

3 per quarter.

Explanation: In support of OFHEO's regulatory and supervisory authority and its specific authorities to conduct examinations and develop and implement capital regulations, OFHEO has established a sophisticated economic, financial and policy research capability. The ability to conduct such research allows the Office to maintain its independence in the evaluation of technical questions related to the safety and soundness of the Enterprises. Congress recognized the need for OFHEO to develop its own research capability by explicitly authorizing the Director to conduct research and financial analysis, and requiring the Enterprises to provide the necessary data.

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

In FY 2001, OFHEO will continue to explore the application of its research in credit scoring and Enterprise purchases of subprime mortgages to the stress test, and will pursue research in other priority areas that OFHEO identifies as relevant to the safety and soundness of the Enterprises. The development and exchange of analysis and findings from examinations, capital assessments and ongoing monitoring and research among OFHEO staff and management ensure that OFHEO remains knowledgeable of the risks that face the Enterprises.

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 relevant interest groups. 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. Working with other agencies on issues that may affect the Enterprises' safety and soundness provides a broadening of views and a balanced approach to regulatory oversight. Providing transparency in the secondary mortgage market promotes market efficiency. OFHEO has identified four strategic objectives with supporting FY 2001 performance goals that will enable the Office to reach this strategic goal. The last two strategic objectives were added beginning FY 2001.

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

Use of internal modeling capacity to regularly analyze Enterprise risks. Participation in development and training programs and in examination activities with other financial regulators.

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

<u>Performance Measure</u>: Use the Financial Simulation Model (the stress test

software) to assist OFHEO in developing risk profiles for

the Enterprises.

<u>Target</u>: Run specific simulations on an as needed basis.

<u>Performance Measure</u>: Use Surveillance and Monitoring system to assist OFHEO

in analyzing risks for the Enterprises.

<u>Target</u>: Develop Surveillance and Monitoring reports on an as

needed basis.

Means, Strategies and Performance Goal Explanation (2.1(a))

OFHEO's Financial Simulation Model is a model used for simulating Enterprise financial performance under a variety of economic environments, including stressful ones. The Financial Simulation Model is OFHEO's principal tool for developing and running the stress test. In addition, both as a whole and in its parts, the Financial

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

Simulation Model supports a wide range of research and financial analysis relating to credit and interest rate risk, and performance trends at the Enterprises. As part of OFHEO's ongoing monitoring of the Enterprises, the Financial Simulation Model will be used by our examination program to assist in evaluating the credit and interest rate risk profiles for each Enterprise, as well as to assist OFHEO in the timely analysis of issues as they arise.

The Surveillance and Monitoring system is a tool for analyzing financial data to assess risk factors affecting the Enterprises. The system generates standardized reports that permit the OFHEO staff to maintain an ongoing virtual presence in all aspects of the Enterprises' business activities through the review of objective risk-related data. The system also facilitates customized analysis of specific Enterprise business activities, on an as needed basis, through query capabilities and analytical tools.

OFHEO's Research Systems Environment is used to support the operation of the Data Warehouse, the Financial Simulation Model and the Surveillance and Monitoring system. It provides the necessary computer hardware, software and other systems to support all three. The Data Warehouse is the repository for all Enterprise-provided data and other Enterprise-related data at OFHEO. It receives raw data from the Enterprises, and supplies both the Financial Simulation Model and the Surveillance and Monitoring system with the processed data necessary for their function. To develop and maintain the Data Warehouse, the Financial Simulation Model and the Surveillance and Monitoring system, OFHEO uses a mix of in-house economists, financial analysts, computer specialists, and contract support. These resources make it possible for OFHEO to regularly and independently analyze the Enterprises' risks with the Surveillance and Monitoring system and by using the Financial Simulation Model separately from its use in the stress test. OFHEO's FY 2001 Budget requests resources to ensure that OFHEO has the capacity to assess and monitor Enterprise risks.

The scope and complexity of the Enterprises' housing finance activities have expanded dramatically, as has the range of risks embedded in those activities. The amount of mortgages on which the Enterprises are exposed to credit risk has doubled to over \$2 trillion since OFHEO's creation in June 1993. During the four quarters ending in December 1999, the combined amount of the Enterprises' retained mortgage portfolios grew by over 26 percent so that the amount of mortgage assets on which they manage interest rate risk was \$846 billion, nearly three and a half times as large as the combined amount they managed when OFHEO was created.

Enterprises.	Strategic Goal 2:	To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.
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The Enterprises funding and hedging strategies associated with their retained mortgage portfolios include the broad use of the most sophisticated derivative and debt instruments available in the financial markets. The FY 2001 budget requests sufficient funds and staffing levels to provide the capacity to model and assess these transactions to ensure effective and dynamic oversight of the Enterprises.

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

Performance Goal 2.1(b):	To maintain the objectivity of the examinations process,
	OFHEO examiners will participate in professional
A STATE OF S	development and training programs and in joint
	projects with other financial regulators and will
Topic Time Section 1997	participate in examination related regulatory forums.

<u>Performance Measure</u>: To participate in professional development and training

programs and in joint projects with the other financial regulators to broaden examiners' expertise and maintain

objectivity.

Target: An average of at least two professional development and

training programs or joint projects with other financial regulators per OFHEO examination staff member per year.

<u>Performance Measure:</u> To participate in examination related forums with the other

financial regulators.

<u>Target</u>: At least eight.

# Means, Strategies and Performance Goal Explanation (2.1(b))

Maintaining the objectivity and expertise of the examination cadre is a high priority for OFHEO. Examination staff participation in professional development and training programs affords the staff the opportunity to maintain and enhance the knowledge and skills requisite for the examination of large complex financial institutions. Participation in joint projects with the other financial regulators offers OFHEO's examination staff benchmarks for the standards that serve as "best practices" in the examination process. Additionally, OFHEO examiners will participate in relevant interagency forums to remain current on regulatory issues and developments. These forums include the Federal Financial Institutions Examinations Council (FFIEC) and the new GSE Regulators Examinations Working Group.

To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the
Enterprises.

Strategic Objective 2.2: To ensure an efficient, effective, and balanced approach to the regulation of the Enterprises.
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Measure: Number of opportunities for public comment on proposed

regulations. Maintenance of ongoing consultation with other

government agencies.

Performance Goal 2.2(a): To pr	
remormance Goal 2.2(a): 10 pr	ovide the Enterprises and other stakeholders the
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appro	priate opportunity for input on regulatory
o of resi	ties.
activi	ucs.

<u>Performance Measure</u>: Percent of proposed regulations issued placed on website

within two weeks of publication in the Federal Register.

Target: 100 percent.

Means, Strategies and Performance Goal Explanation (2.2(a))

OFHEO will publish all of its proposed regulations on its web page and solicit comments from interested parties. Such access should broaden the awareness of OFHEO's proposed regulations and provide more opportunities for public input.

Performance Goal 2.2(b): To communicate effectively with all stakeholders on regulatory issues.
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<u>Performance Measure</u>: Consider and respond appropriately to all Congressional

inquiries.

<u>Target</u>: 100 percent response to all Congressional inquiries within

15 days.

<u>Performance Measure</u>: Consider and respond appropriately to all public inquiries.

<u>Target</u>: 100 percent response to all public inquiries within 15 days.

Means, Strategies and Performance Goal Explanation (2.2(b))

OFHEO will both respond to and initiate communication with members of Congress and congressional committee staff to ensure that legislators have and adequate understanding of OFHEO's operations, proposals, expenditures, and regulatory activities. In addition to providing testimony and reports to Congress, OFHEO will arrange briefings and informational meetings for the legislative branch.

Strategic Goal 2:	To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.
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OFHEO will respond appropriately to all public inquiries regarding OFHEO's operations, proposals, expenditures and regulatory activities to ensure that all public stakeholders have an adequate understanding of OFHEO's operations, proposals, expenditures, and regulatory activities. OFHEO representatives will speak at industry forums to provide information about the secondary mortgage market, Fannie Mac, Freddie Mac and OFHEO's regulatory role.

Performance Goal 2.2(c): Work with HUD on regulatory issues of a common interest.	
interest.	

Performance Measure:

All significant interactions are reported in OFHEO's

quarterly report to the HUD Secretary.

Target:

100 percent.

# Means, Strategies and Performance Goal Explanation (2.3(a))

OFHEO and HUD share regulatory responsibilities for the Enterprises. OFHEO's mission is to ensure their financial safety and soundness, and HUD's role is to provide oversight of the programmatic responsibilities assigned to the Enterprises in their Charter Acts. The two regulators work together to achieve these regulatory goals. HUD determines whether an Enterprise has started a new program. OFHEO evaluates the potential effect of a new program on Enterprise safety and soundness. OFHEO provides safety and soundness information and advice to HUD on non-mortgage investments of the Enterprises, affordable housing goals and other charter issues. This collaboration and consultation enriches the operations of the two regulators and facilitates their achieving their goals.

Strategic Goal 2: To promote an efficient secondary mortgage market through an

independent and balanced approach to regulatory oversight of the

Enterprises.

Strategic Objective 2.3: To promote transparency in the secondary mortgage market.

Measure: Information about the secondary mortgage market is made

available timely.

Performance Goal 2.3(a): To provide information to the public about the

secondary mortgage market.

Performance Measure: Analyze and report about the secondary mortgage market in

OFHEO's (annual) Report to Congress.

Target: By June 15, 2001.

Performance Measure: Analyze and report on house price trends through

OFHEO's House Price Index (HPI) Report.

Target: Quarterly.

Means, Strategies and Performance Goal Explanation (2.4(a))

OFHEO will respond to and initiate communication with the public and other stakeholders to ensure an understanding of the secondary mortgage market, Fannie Mae, Freddie Mac, and OFHEO's regulatory role.

OFHEO's Annual Report to Congress is a key product which incorporates issues, trends, and topics of interest to the public. Hard copies of this report are distributed to interested parties and are also made available on OFHEO's website at www.ofheo.gov. OFHEO's quarterly HPI, which documents changes in home prices for the nation, each state and the nine census regions, will also be available as a paper copy as well as on the website.

Additionally, OFHEO will facilitate production of other informational (nonproprietary) products on the secondary mortgage market for dissemination on OFHEO's website in order to serve as an ongoing source of current information for the public.

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 our 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 will work to ensure that the Enterprises' actions and operations comply with the provisions of their Charter Acts and other applicable laws within our jurisdiction. OFHEO has identified two strategic objectives with supporting FY 2001 performance goals that will enable the Office to reach this strategic goal.

Strategic Objective 3.1: To ensure that executive compensation at the Enterprises is no	t
excessive.	

Measure:

Percent of executive officer termination agreements acted upon by

OFHEO. Percent of instances of excessive executive compensation acted upon by OFHEO.

Performance Goal 3.1(a): To ensure that executive compensation at the  Enterprises is not excessive.
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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.

Means, Strategies and Performance Goal Explanation (3.1(a))

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 prior approval of OFHEO's Director before entering into or changing termination agreements with their executive officers. The Charter Acts

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

provide that the Director of OFHEO may not approve any such agreement unless the Director determines that the benefits provided under such agreements 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. This study resulted in the identification of a comparable peer group and methodology for tracking and monitoring changes to executive compensation at the Enterprises on an ongoing basis. In FY 2001, OFHEO will continue to monitor changes to executive compensation at the Enterprises to ensure that it is not excessive. OFHEO has also reviewed the Enterprises' policies for termination agreements and severance packages. When an Enterprise enters into or amends a termination agreement with one of its executives, OFHEO will review and act upon that agreement.

**Strategic Goal 3:** To effectively regulate the Enterprises by ensuring that they comply with

all laws under our jurisdiction.

Strategic Objective 3.2: To ensure that the Enterprises do not violate other provisions:

of their Charter Acts or of OFHEO's statute.

Measure: Percent of supervisory actions to remedy Charter Act and other

violations that are successful.

Performance Goal 3.2(a): To ensure that the Enterprises do not violate 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.

Means and Strategies: Output Goals and Performance Goal Explanation (3.2(a)

1. Analyze activities undertaken by an Enterprise as appropriate to determine whether they violate the Charter Act or provisions of OFHEO's statute.

Output Measure:

Decision paper.

Target:

As needed.

2. Report on appropriate action (e.g., informal communication, examination recommendation, supervisory agreement, other enforcement action) taken to address the violation and follow up to effect full compliance.

Output Measure:

Annual Enforcement Action Report to Congress.

Target:

March 15, 2001.

Explanation: The Director has authority under the Act to take enforcement actions for matters involving the Enterprises' capital levels, safety and soundness, and violations of certain laws and regulations. For matters other than safety and soundness or capital-related issues, the Director's authority to bring an enforcement action is subject to the approval of the HUD Secretary. OFHEO's enforcement powers include traditional enforcement tools such as cease-and-desist orders, supervisory agreements and civil money penalties.

In FY 2000 OFHEO expects to have finalized regulations describing the rules of procedure to implement OFHEO's enforcement authorities. OFHEO will also continue to address issues related to their charter authorities, working with HUD when appropriate. Such issues periodically arise as the Enterprises develop new financial products or engage in new types of activities.