

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
FY 2006 Performance Plan

INTRODUCTION

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, (P. L. 102-550, Section 1313(a)), Title XIII of the Housing and Community Development Act of 1992 (1992 Act), established OFHEO as an independent office in the Department of Housing and Urban Development (HUD) to supervise the two largest government-sponsored enterprises – Fannie Mae and Freddie Mac. The Act mandates annual examinations of Fannie Mae and Freddie Mac by OFHEO to determine the condition of each Enterprise for the purpose of ensuring financial safety and soundness. The statute also requires OFHEO to develop and administer capital requirements for the Enterprises and to conduct other research and financial analysis necessary for effective regulatory oversight. In so doing, OFHEO helps ensure the Enterprises are able to provide liquidity to the mortgage markets and promote homeownership.

In the last several years, both Fannie Mae and Freddie Mac have experienced problems with internal controls and the application of accounting guidance that has forced them to restate their published financial results. The accounting failures and management control weaknesses made public at both Fannie Mae and Freddie Mac serve to underscore the importance of maintaining a strong, flexible regulator of the Enterprises. Both Enterprises have entered into agreements with OFHEO, requiring that plans be put in place and implemented to return the companies to reporting timely, certified financial statements to the public. OFHEO continues to monitor their progress.

Fannie Mae and Freddie Mac engage in two principal lines of business: the buying and holding of residential mortgages and mortgage-backed securities, and the guaranteeing of securities backed by residential mortgages. Those activities expose the Enterprises to interest rate, prepayment, credit, liquidity, operational and other risks. Each Enterprise's business decisions reflect its understanding of those risks and its risk management strategies, how those risks may evolve over time, and the potential ramifications of the economy as a whole. OFHEO must also ensure that Fannie Mae and Freddie Mac financial disclosures are accurate and that risk reporting by the Enterprises is meaningful and accurate.

Enterprise business operations and risk management have become increasingly sophisticated and complex in recent years. For example, Fannie Mae and Freddie Mac continue to be two of the largest users of derivative instruments, primarily interest-rate derivatives to lower their funding costs and manage interest rate risk. Their combined derivatives outstanding grew from a notional amount of \$72 billion at the end of 1993 to \$1.5 trillion at year-end 2004. The use of derivatives exposes each Enterprise to derivatives counterparty risk. Modeling the impact of those instruments on each Enterprise's interest rate risk and activities appropriately, and understanding the potential implications for financial stability of their central role in mortgage and financial markets, are key challenges for OFHEO that require adequate resources and expertise.

Dramatic advances in technology have made possible the expansion and increasing complexity of the business management and risk management of Fannie Mae and Freddie

Mac. The Enterprises employ cutting-edge techniques, employing massive databases and complex quantitative models, to measure and manage their risks in an ever changing business and economic environment. These technologies not only permit the Enterprises to leverage their resources but also pose operational risks that Fannie Mae and Freddie Mac must actively manage. OFHEO must also understand and monitor Enterprise operational risks to ensure the adequacy of their strategies for managing those risks.

Just as Fannie Mae and Freddie Mac continually evaluate their operations and undertake new activities, OFHEO must continually evaluate its capability to oversee the Enterprises and to understand and monitor their operations and risks. OFHEO must be able to respond quickly to developments at the Enterprises, and must have adequate resources to deploy quickly to address emerging issues.

OFHEO'S MISSION AND STRATEGIC GOALS

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 developed three strategic goals to achieve its mission.

Strategic Goal 1: Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements.

Strategic Goal 2: Enhance public understanding of the nation's housing finance system.

Strategic Goal 3: Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.

The OFHEO 2003-2008 Strategic Plan describes the mission of the Office and three Strategic Goals to achieve it. This is the starting point for the performance goals that OFHEO plans to achieve in fiscal year 2006. The means and strategies of OFHEO are the key activities, actions, processes and technologies that describe how OFHEO will use its fiscal year 2006 resources to achieve each performance goal. The Office provides regulation, supervision, guidance, review and a variety of products designed to provide oversight of the Enterprises and to benefit the financial markets. As for all regulators, internal and external factors may impact the ability of OFHEO to achieve its goals.

2004 – 2006 Resource Allocation Estimates

Dollars in Millions							
	Strategic Goal 1		Strategic Goal 2		Strategic Goal 3		
Year	Dollars	Percent	Dollars	Percent	Dollars	Percent	Total
2006	56.3	93.8	3.5	5.8	0.2	0.4	60.0
2005	64.5	94	3.6	5.7	0.2	0.3	64.3
2004	33.5	84	4.7	11.8	1.7	4.2	39.9
Full Time Equivalent (FTE)							
	Strategic Goal 1		Strategic Goal 2		Strategic Goal 3		
Year	FTE	Percent	FTE	Percent	FTE	Percent	Total
2006	235.9	94.1	14.3	5.7	0.5	0.2	250.7
2005	184	92.9	13	6.6	1	0.5	198.0
2004	N/A	N/A	N/A	N/A	N/A	N/A	152.0

N/A – not available.

PROGRAM PERFORMANCE OVERVIEW**Strategic Goal 1: Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements.**

The primary duty of OFHEO as a regulator is to ensure that the Enterprises have the financial strength to fulfill their important role in the nation's housing finance system. Providing a comprehensive and effective oversight program requires attention to the Enterprises' operations, the risks inherent in their activities, their management, and the dynamic environment in which they operate. Maintaining risk-based standards and understanding the risk profiles of the Enterprises is essential to the ability of OFHEO to ensure their continuity. Enterprise examinations and oversight are the joint product of several offices at OFHEO with responsibility for supervision. These offices work together to ensure coordination and that knowledge and information is shared appropriately within OFHEO to improve Enterprise supervision.

Performance Goal 1.1: The Enterprises comply with safety and soundness standards.

Performance Measure 1.1(1): All identified safety and soundness concerns at an Enterprise are resolved to OFHEO's satisfaction by the Enterprise or are addressed by OFHEO's use of supervisory or enforcement authorities.

Means & Strategies:

On a calendar year cycle, OFHEO conducts risk-based examinations at each Enterprise. An integral part of the examination program is identifying risks, developing risk-focused examination strategies and updating those strategies as risk profiles change. Examples of risk areas include: market and interest rate risk, credit risk, operations risk, corporate governance, internal financial models, accounting policies and practices, risk measurement methods and structured financial transactions. OFHEO bases the examination strategies on an analysis of the risk profiles of each Enterprise combined with a comprehensive and systematic review of the assessment factors and the corresponding evaluation criteria for each of the examination program areas. In advance of the examination, OFHEO completes and communicates the Examination Strategies for each Enterprise and updates these strategies quarterly, as necessary, as risk profiles change. OFHEO may also conduct special examinations or reviews of the Enterprises to ensure safety and soundness regarding specific topics or risk areas, at the discretion of the Director.

Each quarter, OFHEO updates the risk profile for each Enterprise as necessary. This updated risk profile benefits from: the analytical work conducted through the Surveillance and Monitoring program; financial analysis tools; technical work being conducted; special examination reports; and special studies, economic analysis, environmental analysis, and other research conducted at OFHEO related to the financial health of the Enterprises.

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 flow of information further 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 communications 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 nature of 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 nature of OFHEO efforts 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 will evaluate its success.

OFHEO considers the responsiveness of the Enterprises 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 that deficiencies are corrected.

OFHEO conducts risk-based examinations of the Enterprises that parallel the examinations conducted by the depository regulators for large and complex banks with an emphasis on evaluating risk management processes. The OFHEO risk-based examinations include transactional testing and verification to the extent that staffing resources permit.

OFHEO has planned information systems enhancements and improved retrieval and reporting tools that will provide enriched information for the examiners to better evaluate risks. The Examiner Workstation investment will provide examiners with a comprehensive tool to access information necessary to assess risk from a single software application on their computer, both onsite and off-site. The Examiner Workstation is similar in concept to initiatives being developed at the Federal Reserve and the OCC. During FY 2006, OFHEO will utilize the components of the Examiner Workstation that have been completed in FY 2005.

Prior Year Performance Information:

2006	The Enterprises comply with safety and soundness standards.
2005	Both Enterprises met safety and soundness standards, however, OFHEO found inadequate controls and improper accounting at Fannie Mae and took remedial action. OFHEO continued to monitor both Enterprises' progress in completing remedial action to address special examination findings.
2004	Both Enterprises met safety and soundness standards, however, OFHEO continued to monitor required remedial actions based on unsafe and unsound practices identified by OFHEO at Freddie Mac in FY 2003. OFHEO identified safety and soundness concerns at Fannie Mae and took remedial action.
2003	Both Enterprises were financially sound, however, OFHEO identified unsafe and unsound practices at Freddie Mac and undertook remedial actions.
2002	Both Enterprises were financially sound and well managed.

2001	Both Enterprises were financially sound and well managed.
------	---

Performance Goal 1.2: The Enterprises are adequately capitalized.

Performance Measure 1.2(1): The Enterprises meet OFHEO's determination of capital adequacy or OFHEO receives an acceptable capital plan.

Performance Measure 1.2(2): Initiate development of a formal program to systematically review and revise (as necessary) all capital adequacy regulations, models and measures.

Performance Measure 1.2(3): Develop additional measures of Enterprise capital adequacy.

Means & Strategies:

Capital adequacy is an essential component of Enterprise safety and soundness. OFHEO uses a multi-faceted approach to ensure that the Enterprises remain adequately capitalized. Through its continuous and comprehensive monitoring and examination of each Enterprise, quarterly quantitative measurements, evaluation of the Enterprises' financial condition and operating environment, scenario analyses, economic analysis, alternative modeling tools, and research, OFHEO makes informed decisions about the capital adequacy of each Enterprise.

As required by statute, OFHEO currently applies two key quantitative measures of capital adequacy, minimum and risk-based capital, in determining each Enterprise's capital classification on a quarterly basis. The minimum capital standard, as with other financial regulators, is ratio-based and represents a statutorily determined amount of capital needed to protect an Enterprise against broad categories of business risk. The risk-based capital requirement is based directly on the risks inherent in the Enterprises' portfolios and other obligations, particularly the risks related to credit extended and to changes in interest rates.

On a continuous basis, OFHEO ensures that the data and information used to support the capital assessments are accurate and sufficient to determine capital adequacy. In calculating the capital measures, OFHEO periodically validates the data submitted by the Enterprises to calculate capital and assesses the process used by the Enterprises to ensure data quality. OFHEO also incorporates capital treatments for new products and business, examines and verifies capital-related issues, and validates that the existing model implementation conforms with the existing capital regulation. In fiscal year 2006, OFHEO will continue to expand and enhance its qualitative assessments of the Enterprise's capital planning and capital management practices, and will initiate on-site assessments of the Enterprises' data provisioning processes.

Before making the determination about the capital adequacy of the Enterprises, OFHEO supplements the quantitative findings by looking at a broad array of information that captures the capital positions of the Enterprises. OFHEO performs extensive financial analytics each quarter and, based on the results of the quantitative measures, identifies potential risks in the Enterprises' portfolios for further evaluation. OFHEO also supplements the two statutorily-required interest rate scenarios in the risk-based capital stress test with alternative interest rate scenarios. OFHEO analyzes trends in the Enterprises' operating environment including market interest rates and house prices, portfolios, asset-liability management strategies, and capital requirements. As the Enterprises develop or utilize new products and instruments, OFHEO analyzes the risks of those new products. In addition to this extensive analysis, in fiscal year 2006, OFHEO will start to implement market-value based models (e.g. an asset-liability management model) to evaluate Enterprise risks.

OFHEO is committed to ensuring that the capital standards applied to the Enterprises result in a comprehensive and accurate evaluation of the Enterprises' capital adequacy. The Enterprises regularly adapt their business activities and products as the financial markets and the mortgage finance industry evolve. The assessment of capital adequacy must reflect these changes and their associated risks. In fiscal year 2006, OFHEO will begin implementing a systematic review of the minimum and risk-based capital rules and the risk-based capital model to validate the original assumptions, identify new measurements of risk and/or capital treatments, and propose modifications to the existing regulations where needed. OFHEO will target a three-year cycle for the review and proposed modification, as appropriate, of the stress test and regulation. As part of the effort to ensure up-to-date capital standards, OFHEO will begin to streamline and simplify the coding of existing models and measurement tools to enhance their usability and usefulness. This will allow OFHEO to improve significantly its ability to continually evaluate the performance of major modeling assumptions and components. The program of systematic review will ensure that the measurements, methodologies and parameters applied in the risk-based capital stress test will remain current to economic and business standards and reflect an appropriate tying of risk to capital.

Minimum and risk-based capital are only two measures of an Enterprise's capital position. In fiscal year 2006, OFHEO will also perform research that leads to development of additional capital adequacy measures, models, and tools, or results in changes to existing methodologies or regulation. OFHEO will begin its examination of the best practices contemporaneously employed by organizations such as bond insurers, rating agencies, and dealer-brokers to model and monitor capital adequacy in order to facilitate the improvement of modeling of Enterprise risks and the development of additional measures of capital adequacy. Through comparative analyses of the Enterprises to other financial institutions (Banks, Thrifts, and/or Federal Home Loan Banks) using metrics similar to those used by other financial regulators, such as bank capital requirements or early warning systems, OFHEO will generate a more comprehensive view of capital adequacy and therefore the Enterprises' safety and soundness.

To ensure that major risks (e.g. market, credit, operational, model) affecting the capital adequacy of the Enterprises have been appropriately identified and analyzed or modeled, OFHEO will use publicly-disclosed and proprietary data provided by the Enterprises to analyze other risk measures for interest rate risk, credit risk, liquidity risk, and/or derivatives

counterparty risk. In fiscal year 2006, OFHEO will begin to research and develop new early warning systems to identify new risks or better evaluate existing risks. The Director of OFHEO will use the information provided through analysis of the current capital measures and information based on other relevant measures of risk and capital when making the determination of capital adequacy.

OFHEO will continue in fiscal year 2006 its timely, accurate assessment and reporting of the capital adequacy of each Enterprise and will determine at least quarterly if each Enterprise meets the minimum capital and risk-based capital standards, as required by law. OFHEO makes the capital classifications public when they are final. In the event that an Enterprise should fail to comply with the current capital adequacy requirements, the Enterprise must develop and execute a viable corrective plan, acceptable to the OFHEO Director. The timeliness and urgency will depend upon the magnitude of and reasons for the non-compliance with the capital requirements at that time.

Prior Year Performance Information:

2006	The Enterprises are adequately capitalized.
2005	<p>Freddie Mac: classified as adequately capitalized each quarter. Fannie Mae: classified as adequately capitalized for three quarters and classified as significantly undercapitalized for the quarter ending December 31, 2004.</p> <p>Quarterly minimum capital classification ratios: Fannie Mae: 1.015 to 1.327ⁱ Freddie Mac: 1.451 to 1.501ⁱⁱ</p> <p>Quarterly risk-based capital classification ratios: Fannie Mae: 1.567 to 5.585ⁱ Freddie Mac: 3.123 to 4.674ⁱⁱ</p>
2004	<p>Freddie Mac: classified as adequately capitalized each quarter. Fannie Mae: classified as adequately capitalized for the first three quarters and classified as significantly undercapitalized for the quarter ending September 30, 2004.</p> <p>Quarterly minimum capital classification ratios Fannie Mae: 0.906 to 1.158ⁱ Freddie Mac: 1.355 to 1.421ⁱⁱ</p> <p>Quarterly risk-based capital classification ratios Fannie Mae: 1.292 to 1.511ⁱ Freddie Mac: 4.894 to 8.575ⁱⁱ</p>
2003	<p>Each Enterprise is adequately capitalized. Quarterly minimum capital classification ratios</p>

	<p>Fannie Mae: 1.032 to 1.052ⁱ Freddie Mac: 1.298 to 1.444</p> <p>Quarterly risk-based capital classification ratios Fannie Mae: 1.204 to 1.831ⁱ Freddie Mac: 5.100 to 21.597</p> <p>Made technical amendments to the final rule and initiated projects to consider future changes.</p>
2002	<p>Each Enterprise is adequately capitalized. Quarterly minimum capital classification ratios Fannie Mae: 1.02 to 1.03ⁱ Freddie Mac: 1.051 to 1.310</p> <p>Third Quarter CY 2002 risk-based capital ratios (first enforceable application of the risk-based capital standard) Fannie Mae: 1.332 Freddie Mac: 4.696</p>
2001	<p>Each Enterprise is adequately capitalized. Quarterly minimum capital classification ratios Fannie Mae: 1.021 to 1.036 Freddie Mac: 1.068 to 1.130</p>

ⁱ The Fannie Mae minimum and risk-based capital classifications are based on financial information and the application of accounting policies currently under review by OFHEO and subject to restatement.

ⁱⁱ OFHEO reaffirmed Freddie Mac's capital classification and restated minimum capital results after Freddie Mac published results in May and August 2005.

Performance Goal 1.3: The Enterprises comply with applicable laws, regulations and directives, including executive compensation, corporate responsibility and disclosure.

Performance Measure 1.3(1): Any identified instances of non-compliance with laws, regulations or directives are resolved to OFHEO's satisfaction.

Means & Strategies:

OFHEO will monitor and review the compliance by each Enterprise with laws, regulations and directives that are under the jurisdiction of OFHEO, and compliance with ongoing OFHEO enforcement efforts. In some cases, as issues arise, the OFHEO internal reviews of Enterprise compliance may be conducted by committees or working groups. If compliance is associated

with the established risk assessment factors for examination, such review may be part of the risk-based examination (e.g., compliance with the National Flood Insurance Act or OFHEO Policy Guidance on non-mortgage liquidity investments). OFHEO monitors the early-alert triggers described in the Prompt Supervisory Response regulation so that any needed regulatory response would be timely. OFHEO will continue to monitor Enterprise disclosures to ensure compliance with applicable laws and regulations, as well as the Enterprise accounting policies, to assure proper application.

At the direction of the Director, OFHEO will conduct special examinations of Enterprise compliance with applicable laws, regulations and directives, including corporate responsibility and disclosure. Such examinations may be focused on issues, transactions, and/or events that may be identified by various offices within OFHEO or from such other source as identified by the Director. In addition, such examinations may require the use of outside consultants, contractors or subject matter experts. Results of such examinations will be reported to the Director.

Upon the identification of instances of Enterprise non-compliance by OFHEO, the Office may initiate enforcement action appropriate to correct non-compliance and ensure satisfactory compliance on an on-going basis. Should a violation of law be determined by another regulator or by a judicial body under a statute not within direct OFHEO enforcement authority, OFHEO may take such supervisory action as deemed necessary within its authorities relating to safety and soundness and the charter acts. In fiscal year 2006 OFHEO will continue to pursue ongoing enforcement activities and undertake additional supervisory action if new or additional violations of law or regulation are discovered at either Enterprise.

The OFHEO statute also requires the Director to prohibit the Enterprises from providing excessive compensation to any executive officer. Additionally, the Enterprise chartering acts require the Enterprises to obtain the prior approval of the OFHEO Director before entering into or changing agreements to provide termination benefits to executive officers. OFHEO reviews overall compensation and termination benefits to see that they meet statutory requirements for comparability with payments made by comparable organizations. OFHEO, with the assistance of an executive compensation consulting firm, conducted an extensive study of executive compensation at the Enterprises in fiscal year 2002. OFHEO will update that study in fiscal year 2006 to ensure that executive compensation is not excessive. Also, when an Enterprise submits for OFHEO approval an agreement or amendment to an agreement that provides termination benefits to an executive, OFHEO will review and act upon the Enterprise request. OFHEO will also monitor Enterprise compliance with the executive compensation regulation and, if necessary, take appropriate steps to assure their compliance.

Prior Year Performance Information:

2006	The Enterprises comply with applicable laws, regulations and directives, including corporate responsibility and disclosure.
2005	Issued corporate governance regulation and mortgage fraud regulation. Issued examination guidance and a Director’s Advisory. Reviewed

	Enterprise compliance with applicable laws, regulations and directives, including corporate responsibility, executive compensation and disclosure requirements. Each Enterprise responded appropriately to issues identified by OFHEO.
2004	Reviewed Enterprise compliance with applicable laws, regulations and directives, including corporate responsibility and disclosure requirements. Each Enterprise responded appropriately to issues identified by OFHEO.
2003	OFHEO identified instances of unsafe and unsound practices at Freddie Mac, undertook supervisory actions, and required remedial steps.
2002	No instances of violation identified during fiscal year 2002.
2001	No instances of violation identified during fiscal year 2001.

Strategic Goal 2: 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 have the opportunity to improve 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, contributing to more informed decision-making by the public.

Performance Goal 2.1: Enhance awareness and understanding of housing and mortgage market developments and Enterprise risks and activities through published research and analysis of risks and emerging issues.

Performance Measure 2.1(1): Report about house price trends quarterly through the House Price Index (HPI) report.

Performance Measure 2.1(2): Publish special reports on topical and emerging issues as appropriate.

Means & Strategies:

OFHEO provides information about house prices, mortgage markets, and the Enterprises on a regular basis through several vehicles. The OFHEO quarterly House Price Index (HPI) documents changes in house prices for the nation, each state, the nine census regions, and metropolitan statistical areas (MSAs). OFHEO posts the HPI on its web site each quarter. Many researchers, analysts and practitioners rely on the OFHEO HPI. In fiscal year 2006, OFHEO will undertake research to refine the HPI and assess the implications of changes in house prices.

OFHEO also provides valuable information to the public regarding the Enterprises and developments in housing finance through published reports, staff studies, and other analyses. OFHEO research is designed to support the Office’s supervisory efforts in fostering safety and soundness through examinations, capital standards, and the regulatory regime. Some research also presents the opportunity to improve the public’s understanding of the housing finance system, the Enterprises, and related policy issues. 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. Research projects in fiscal year 2006 will address such topics as operational risk, jumbo mortgages, Enterprise subordinated debt, derivatives market illiquidity, the Enterprises’ retained mortgage portfolios, and subprime mortgages.

On a quarterly basis, OFHEO will disclose appropriate information about the compliance of each Enterprise with both the minimum and risk-based capital standards. The information will include non-proprietary details relating to the calculation of the minimum capital requirement and a description of the performance of each Enterprise in the risk-based capital stress test. OFHEO will use the analytic capability of the stress test and alternative scenarios to assess the risk profile of the Enterprises for both internal purposes and to release additional analysis to the public.

Prior Year Performance Information:

2006	Enhance awareness and understanding of housing and mortgage market developments and Enterprise risk and activities through published research and analysis of risks and emerging issues.
2005	HPI Report issued quarterly. One research paper published as planned.
2004	HPI Report issued quarterly. Research to meet the Director’s priorities was completed. A report on the special examination of Freddie Mac and a report with findings to date on the Fannie Mae special examination were published. Other papers and reports on special topics were completed.
2003	House Price Index (HPI) Report issued quarterly. Research and analysis of emerging issues have been ongoing. OFHEO made progress on its research agenda.
2002	House Price Index (HPI) Report issued quarterly. Research and analysis of emerging issues have been ongoing. OFHEO made progress on its research agenda.
2001	HPI Report issued quarterly. Research and analysis have been ongoing. Additional research priorities have been developed.

Performance Goal 2.2: Communicate effectively with all stakeholders on regulatory issues.

Performance Measure 2.2(1): Report on OFHEO activities, examination results and conclusions, and the secondary mortgage market in the OFHEO annual Report to Congress.

Performance Measure 2.2(2): The majority of survey respondents visiting OFHEO's web site find it a useful resource.

Performance Measure 2.2(3): Consider and respond appropriately to all Congressional inquiries within 10 business days.

Performance Measure 2.2(4): Consider and respond appropriately to all public inquiries within 15 business days

Means & Strategies:

OFHEO publishes an annual review of housing finance market developments, including the financial performance and activities of the Enterprises, as well as comprehensive historical Enterprise data. OFHEO also issues publicly its annual Report to Congress, available by June 15th each year, which summarizes the results and conclusions of the OFHEO annual risk-based examinations of the Enterprises.

In fiscal year 2006, OFHEO will conduct a survey for users of its web site to seek input from them on whether the web site is beneficial to them. The OFHEO web site is one of the key communication mechanisms OFHEO has with stakeholders. OFHEO will evaluate web site statistics such as frequency of visitors and review survey results to make improvements to the web site over time.

OFHEO will continue to expand its communications with Congress to ensure that legislators have an understanding of the condition and activities of the Enterprises and of OFHEO 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 also continue to respond timely and effectively to inquiries from Congress and the public.

OFHEO will respond appropriately to public inquiries regarding the Enterprises and OFHEO 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 the OFHEO regulatory role. OFHEO will continue to update its web site timely with OFHEO products: Reports, testimony, speeches, news releases, the quarterly house price index, capital classifications and staff working papers.

Prior Year Performance Information:

2006	Communicate effectively with stakeholders on regulatory issues.
2005	Annual Report sent to Congress on June 15, 2005. Issued secondary mortgage market report for both 2003 and 2004. Responded to all inquiries from Congress within 14 days and responded to all public inquiries within 21 days.
2004	Annual Report sent to Congress on June 15, 2004. Responded to all inquiries from Congress within 14 days and responded to all public inquiries within 21 days.
2003	Annual Report on OFHEO activities and examination results and conclusions sent to Congress June 4, 2003. Responded to nearly all inquiries from Congress and the public within 7 days.
2002	Annual Report on OFHEO activities and examination results and conclusions sent to Congress June 15, 2002. Analysis of the secondary mortgage market issued September 2002. Responded to all inquiries from Congress and the public within 7 days.
2001	Annual Report sent to Congress June 15, 2001. Analysis of secondary mortgage market issued separately, July 2001. Responded to all inquiries from Congress and the public within the 15-day goal.

Strategic Goal 3: **Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.**

The secondary mortgage market and the diverse capital markets have experienced dramatic growth and have become increasingly complex. The role of the Enterprises in several of these markets is a dominant one, and in others, their role has grown. To ensure that these dynamics are recognized, OFHEO must work with other Federal agencies to ensure a strong and vital housing finance system and efficient and effective capital markets. In addition, OFHEO will contribute to Federal efforts to promote homeownership and affordable housing as reflected in the Office's mission statement.

Performance Goal 3.1: Cooperate with other Federal financial agencies on regulatory issues.

Performance Measure 3.1(1): Participate in on-going task forces and forums with other regulatory agencies.

Performance Measure 3.1(2): Respond within 30 days to requests from other Federal agencies for information about housing finance markets and the Enterprises.

Means & Strategies:

In fiscal year 2006, OFHEO will continue to 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 non-federal researchers, analysts, and examiners, and may sponsor more formal meetings.

To support OFHEO supervision, research and analysis, the Office is continuing to develop a comprehensive database on mortgage finance. OFHEO stands prepared to assist other Federal agencies in support of on-going Federal research needs with this database, within well-defined confidentiality rules and controls. OFHEO will enhance the availability of this mortgage finance data as described in the OFHEO Strategic Plan and 5-Year IT Strategic Plan (see Performance Goal 4.2).

OFHEO will 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, the Financial and Banking Information Infrastructure Committee, and the Federal Financial Institutions Examination Council (FFIEC) Information Systems Subcommittee.

As described in Performance Goal 2.2, OFHEO will continue to expand ways to communicate with all stakeholders. Through improved interaction with stakeholders, OFHEO will stay abreast of private sector efforts to promote efficiencies in the market, expand homeownership and achieve other public policy goals, and will help ensure that public policy development takes private sector efforts into account.

Prior Year Performance Information:

2006	Cooperate with other Federal financial agencies on regulatory issues.
2005	Worked with other Federal agencies on various issues, participated in interagency task forces and responded to Federal agencies' request for information within the timeframe.
2004	Cooperated with other Federal financial agencies on regulatory issues.
2003	Worked with other Federal financial agencies on regulatory issues.
2002	Worked with other Federal financial regulators on regulatory issues.
2001	Worked with HUD on regulatory issues of a common interest. Cooperation has been ongoing.

Resource Management Strategy: Manage OFHEO resources effectively to enable the Office to fulfill its mission.

The success of OFHEO in achieving its strategic objectives depends on the effective management of its resources and seamless financial and administrative support functions. The size of the OFHEO budget in relation to its mission requires OFHEO to use its limited resources efficiently. 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.

The OFHEO management philosophy reflects the Administration's government-wide management goals. OFHEO focuses on human capital management, effective information technology resource management, and strong program controls, including integrated financial systems.

Performance Goal 4.1: Ensure the staff have the knowledge and skills to fulfill the goals of the Office.

Performance Measure 4.1: Maintain current Individual Development Plans for each staff member to ensure OFHEO staff maintains and enhances the expertise and skills necessary to achieve the Office's goals.

Means & Strategies:

OFHEO staff are the most valuable resources of the Office. OFHEO relies on those with cutting-edge professional skills and a breadth and depth of knowledge in their fields. Their technical competence, skills, and effective teamwork are crucial to ensuring the successful completion of the OFHEO goals. Due to the relatively small size of OFHEO, all staff members must possess a depth and breadth of skill and knowledge that is a combination of several positions at a larger agency. OFHEO hires staff with highly technical skills and oftentimes must provide training to enhance and maintain knowledge and skills.

OFHEO invests in staff development by providing appropriate training for achievement of the OFHEO performance goals. This investment ensures that staff not only stay abreast of changes in the Enterprises, but also in the financial, regulatory, and technological environments in which the Enterprises and OFHEO operate.

Individual Development Plans (IDPs) provide a systematic way to ensure proper skill maintenance and development. OFHEO staff and managers have established Individual Development Plans (IDPs) for each staff member, and have continued to update them on an annual basis. In fiscal year 2006, managers and staff will review the strategic plan and annual performance plan and determine what skill enhancements are needed to carry out the tasks to achieve the agency goals and update their IDPs as appropriate.

OFHEO will also institute new outreach efforts to continue to attract and maintain a high performance workforce.

Prior Year Performance Information:

2006	Ensure the staff have the knowledge and skills to fulfill the goals of the agency.
2005	Completed annual revision of individual development plans for all staff members. Training and development ongoing.
2004	Completed annual revision of individual development plans for all staff members. Training and development ongoing.
2003	Completed annual revision of individual development plans for 95% of staff members. Training and development have been ongoing.
2002	Individual Development Plans were established for all employees. Training and development have been ongoing.
2001	Training and development have been ongoing.

Performance Goal 4.2: Provide effective information resources management services to OFHEO managers and staff.

Performance Measure 4.2: Implement the fiscal year 2006 component of the OFHEO 5-Year IT Strategic Plan.

Means & Strategies:

OFHEO regulation of the Enterprises is highly dependent upon the strategic use of technology. The use of information technology is an integral part of the OFHEO mission and of the operation of the Enterprises that the Office regulates. Without technologies comparable to those used by other organizations with similar risk assessment and analytical requirements, OFHEO would not be able to provide independent analysis of safety and soundness issues to accomplish its mission. OFHEO examiners use technology to analyze the performance of the Enterprises and the mortgage markets in order to update the risk profiles of the Enterprises. The risk-based capital requirements for the Enterprises are calculated using a large and complex computer model that simulates the cash flows of the assets and obligations of each Enterprise under stressful conditions. Research projects often depend on large and well-maintained databases, advanced software, and very high-speed computational facilities. OFHEO also relies heavily on technology to implement its administrative processes. To maintain the technological capability to perform these functions effectively and efficiently so that OFHEO can accomplish its fiscal year 2003-2008 Strategic Plan, OFHEO will review its 5-year IT Strategic Plan each year, and ensure that the annual component of the plan ties to the Annual Performance Plan. The fiscal year 2006 component of the OFHEO 5-Year IT Strategic Plan contains the following goals:

- Enhance the availability of data collected by OFHEO to ensure all OFHEO Offices have access to the data they need.
- Continue to enhance the security, reliability and capacity of the OFHEO IT infrastructure.

Prior Year Performance Information:

2006	Implement the fiscal year 2006 Component of the OFHEO 5-Year IT Strategic Plan
2005	Implemented all three projects outlined in the FY 2005 Component of 5-Year IT Strategic Plan
2004	Implemented all three projects outlined in the FY 2004 Component of 5-Year IT Strategic Plan
2003	Implemented four projects from the fiscal year 2003 Component of 5-Year IT Strategic Plan, made substantial progress on two others, and suspended one project.
2002	5-Year IT Strategic Plan Approved.
2001	Not Applicable.

Performance Goal 4.3: Maintain a strong internal control and risk management program.

Performance Measure 4.3: No material weakness identified by OFHEO's external auditor or external review.

Means & Strategies:

To ensure that resources of OFHEO are managed effectively and efficiently, OFHEO must maintain a strong internal control and risk management program. OFHEO will continue to seek an independent audit of its financial statements and an independent review of its information security program. OFHEO will revise policies and procedures as necessary to ensure that OFHEO resources are used to achieve its strategic objectives and ultimately its mission.

The OFHEO 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 Information Systems Security Officer, several information technology professionals, and everyone in OFHEO. During fiscal year 2006, 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 continue its internal review program, and follow up with its sixth independent review of its information security program.

To ensure that OFHEO continues to function in the event of an emergency, OFHEO will continue to update its “Continuity of Operations Plan” (COOP) and perform periodic disaster recovery testing at a remote site during fiscal year 2006.

Prior Year Performance Information:

2006	Maintain a strong internal control and risk management program.
2005	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. No material weaknesses were reported during the independent review of the OFHEO information security program. The HUD IG found OFHEO’s allocation of resources, staffing and compensation was comparable to other regulators.
2004	Received an unqualified audit opinion on 2003 and 2004 financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. No material weaknesses were reported during the independent review of the OFHEO information security program. The HUD IG found OFHEO exceeded the requirements of the 2004 Appropriations Act to use no less than 60 percent of its 2004 funds for examination, supervision and capital oversight of the Enterprises.

2003	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. No material weaknesses were reported during the independent review of OFHEO's information security program. The HUD IG issued a report with two findings: improve oversight of the travel program and implement a space utilization policy (which OFHEO satisfied by early fiscal year 2004).
2002	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. Contracted for an independent review of IT security and found no material weaknesses.
2001	OFHEO received a clean audit opinion on its financial statements. OFHEO conducted its first independent review of its IT security program. No material weaknesses were found.

Verification and Validation of Performance Information:

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 performance of the Office can be validated. OFHEO managers report ongoing performance and progress against the performance goals, and can rely on this information as they manage their operations. Most of the OFHEO performance indicators reflect data and outputs internal to the Office. The data used as input to the capital calculations are an exception. For the minimum capital and risk-based capital calculations, senior officers of each Enterprise transmit their data and attest to their completeness and accuracy. OFHEO is able to validate the minimum capital data through comparison with published Enterprise data, and has been satisfied with the data received. For the risk-based capital standard, OFHEO uses data validation protocols to ensure consistency and integrity of the data received. This allows ready identification of data issues, which OFHEO resolves with the Enterprises. OFHEO will continue to improve the sophistication of its validation checks and will increase its examination of data provisioning and data accuracy surrounding capital submissions. OFHEO had the financial simulation model used in the risk-based capital calculation independently tested during fiscal year 2001 and continuously tests any changes made to the software model to ensure accuracy. OFHEO and the Enterprises work in concert to ensure the replication of model results by OFHEO and the Enterprises. OFHEO is also increasing efforts to revalidate assumptions on an ongoing basis.

Numerous accounting errors led to substantial understatement of the Freddie Mac core capital numbers in CY 2000, 2001, 2002 and 2003. After Freddie Mac restated financial results for 2000, 2001 and 2002 and published its financial results for 2003, 2004 and the first three quarters of 2005 late, OFHEO reassessed Freddie Mac's capital levels for those periods. OFHEO has determined that the Freddie Mac accounting errors did not substantially affect the risk-based capital outcomes for the Enterprise for the quarters affected.

Both minimum and risk-based capital data for Fannie Mae for 2001, 2002, 2003, 2004 and parts of 2005 are subject to change based on the outcome of the OFHEO review of the

accounting practices of the Enterprise and a restatement of published financial statements as directed by the Securities and Exchange Commission. Fannie Mae will change its application of various Financial Accounting Standards, which may affect their core and total capital calculation. As Fannie Mae determines the impacts from these accounting changes, OFHEO will reevaluate Fannie Mae's capital position and determine the need for resubmission of Fannie Mae capital data for the affected years and reclassification, if necessary.

Monitoring and Reporting on Performance:

During fiscal year 2006, 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. OFHEO will continue using the systems in place to monitor actual performance against the Performance Plan, and will enhance these systems by completing implementation of the integrated financial and administrative management system begun in fiscal year 2004. On a quarterly basis, OFHEO senior management discusses meeting the performance goals and disseminates information on progress to OFHEO staff. Because the OFHEO 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 goals of the Office.

Consistent with the Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000, OFHEO will submit a performance report to Congress for fiscal year 2006 to discuss the actual performance of the Office as compared with the fiscal year 2006 Annual Performance Plan.