



Federal Housing Finance Board

Annual Performance Budget

Fiscal Year 2005

August 31, 2004

MESSAGE FROM THE CHAIRMAN

Two years ago the Federal Housing Finance Board (“Finance Board”) embarked on a long-term, disciplined program to improve its oversight of the Federal Home Loan Banks (“FHLBanks”), twelve large and increasingly complex government-sponsored enterprises that play an important role in the nation’s system of housing finance. A strategic plan covering the period between fiscal years 2003 and 2008, as amended and restated through August 31, 2004 (“Strategic Plan”), resulted from the effort. It reflects continued dedication to this program of improvement, a commitment shared by all of the directors of the Finance Board and the agency’s personnel.

I am pleased to present the Finance Board’s annual performance plan for the fiscal year 2005 as of August 31, 2004 (“Annual Performance Plan”) which sets out the agency’s blueprint for implementation of the Strategic Plan this year. In it you will find specific performance goals and measures, together with means and strategies, for the Finance Board’s achievement in 2005 of the goals and objectives articulated in the Strategic Plan.

The Strategic Plan identifies three major strategic goals that drive the Finance Board’s activities and operations: maintaining a program of bank supervision that fosters safe and sound operation at each of the FHLBanks, ensuring that the FHLBanks serve the nation’s housing finance and community investment needs, and aligning the agency’s supervisory, managerial, and legal resources to support effective, efficient, and responsive bank supervision and regulation and housing mission oversight. In fiscal year 2005, the Finance Board will pursue these goals through a number of new and continuing initiatives detailed in the Annual Performance Plan. Several of these follow below:

- Continuing to develop and maintain a risk-based system of safety and soundness supervision that focuses the agency’s supervisory resources upon the specific credit, market, and operational risks presented by the business and operations of each FHLBank;
- Continuing to enhance the agency’s safety and soundness supervisory capabilities, including developing a skilled examination force, strengthening its off-site monitoring and risk-modeling programs, and augmenting its accounting, economics, and mortgage analysis staff;
- Improving financial reporting and disclosure by the FHLBanks;
- Continuing to assess the quality of corporate governance practices by the FHLBanks and means for their improvement;
- Continuing to enhance the agency’s supervisory capabilities with respect to the housing finance and community investment mission of the FHLBanks;
- Exploring means to permit the affordable housing programs of the FHLBanks to be more responsive to diverse housing needs throughout the country;

- Improving supervisory guidance provided by the agency to its examination staff and the FHLBanks; and
- Reengineering the agency's informational systems and technology capabilities to better support its operations.

Through these and other initiatives and programs the Finance Board continues to carry out its mission of ensuring that the FHLBanks are safe and sound so that they can serve as a reliable source of liquidity and funding for the nation's housing finance and community investment needs. I hope that the Annual Performance Plan satisfactorily conveys to you the ways in which the agency will work to achieve its mission in fiscal year 2005.

Alicia R. Castaneda
Chairman

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Introduction

The Federal Housing Finance Board

The Federal Housing Finance Board (“Finance Board”) is an independent federal agency established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”). The Finance Board is charged with supervising and regulating twelve Federal Home Loan Banks (“FHLBanks”) and has the statutory duty to ensure that the FHLBanks operate in a financially safe and sound manner, are adequately capitalized, and able to raise funds in the capital markets. The Finance Board also has the statutory duty to ensure that the FHLBanks carry out their housing finance mission.

The Finance Board is the successor to the former Federal Home Loan Bank Board (“FHLBB”), which was established by the Federal Home Loan Bank Act (“FHLBank Act”). The Finance Board’s Board of Directors comprises five members -- four are appointed by the President and confirmed by the Senate, all of whom must have extensive experience or training in housing finance or a commitment to providing specialized housing credit. The fifth member is the Secretary of the U.S. Department of Housing and Urban Development. Not more than three directors can be from the same political party. At least one appointed director must be from an organization with more than a two-year history of representing consumer or community interests in banking services, credit needs, housing, or financial consumer protections. The appointed members of the Board of Directors serve staggered seven-year terms. The President designates the chairperson of the Board of Directors from among these appointed members.

The Finance Board draws its financial resources from assessments on the twelve FHLBanks. It receives no appropriations and its funds are not subject to apportionment.

The Federal Home Loan Banks

In 1932, Congress directed the FHLBB to establish between eight and twelve FHLBanks to stimulate mortgage financing and provide liquidity to credit markets that had been adversely affected by the Great Depression. For many decades, members of the FHLBanks consisted primarily of savings and loan associations engaged in home financing; federally chartered savings and loan associations were required by statute to be members. State chartered savings and loan associations were required to be FHLBank members by agreement with the Federal Savings and Loan Insurance Corporation as a condition to obtaining federal deposit insurance. However, in FIRREA, Congress extended eligibility for FHLBank membership to commercial banks and to federally insured credit unions (subject to a home financing requirement). In FIRREA, Congress also established several FHLBank community investment programs. With the enactment of the Gramm-Leach-Bliley Act in 1999, Congress repealed the mandatory membership requirement for federal savings associations. FHLBank membership is now voluntary for all types of eligible institutions.

The FHLBanks, each of which operates within a multi-state district, are located in Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Chicago, Des Moines, Dallas, Topeka, San Francisco, and Seattle. The FHLBanks, along with the Office of Finance (“OF”) of the FHLBanks, are collectively referred to as the “Federal Home Loan Bank System” (“System”). OF issues debt known as “consolidated obligations” in the capital markets on behalf of the FHLBanks. In addition, OF prepares and issues combined quarterly and annual financial reports for the FHLBanks. As of June 30, 2004, the FHLBanks had combined assets approaching \$900 billion.

A board of directors governs each FHLBank. Each FHLBank’s members elect a majority of the directors to serve on the board and the Finance Board appoints a minority of the directors. The FHLBank Act requires that at least two of the appointed directors be chosen from organizations with more than a two-year history of representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections. Although each FHLBank is a separate corporate entity with its own management and board of directors, the FHLBanks are jointly and severally liable for all System consolidated obligation debt.

Membership in an FHLBank is limited to commercial banks, savings institutions, credit unions, and insurance companies that meet eligibility criteria. The FHLBanks’ combined membership exceeds 8,000 institutions. Only FHLBank members and non-member housing associates (principally state and local housing finance agencies) can borrow from an FHLBank. The benefits of membership flow through access to low-cost funds known as advances (collateralized loans), which a member uses to fund mortgage loans and to maintain liquidity for its operations, as well as through dividends paid on member-owned capital stock. The preponderance of the collateral supporting advances consists of mortgage assets.

A significant business activity of the FHLBanks is to provide advances to their members. Access to FHLBank advances enables lenders to hold lesser amounts of low-yielding liquid assets than they otherwise would need to hold. The FHLBank Act stipulates that a member may use long-term advances only to support residential housing finance and, in the case of a community financial institution, to support lending to small businesses, small farms, and small agricultural businesses.

In addition to advances, all FHLBanks offer mortgage purchase programs through which they buy qualifying mortgage loans from members. Under those programs, the FHLBank manages the market risk associated with the loans, while the member bears most of the credit risk (either directly or indirectly through the purchase of mortgage insurance for the loans sold to the FHLBank).

Members also have access to a broad array of community investment advances and grants to support affordable housing and community investment initiatives. The FHLBank Act requires each FHLBank to allocate ten percent of its prior year’s net income to fund a subsidy program known as the Affordable Housing Program (“AHP”). Under the terms of the AHP, a member may submit an application to its FHLBank for

funds to be used to finance housing for very low-, low-, and moderate-income households. As of June 30, 2004, the FHLBanks have committed approximately \$2 billion in AHP subsidies to their members since 1990.

The FHLBanks fund themselves principally by issuing consolidated obligations of the System in the public capital markets through OF, which acts as the FHLBanks' agent. Consolidated obligations of the System consist of bonds (original maturity of one year or longer) and discount notes (original maturity of less than one year). Consolidated obligations are not guaranteed or insured by the federal government. However, the FHLBanks' government-sponsored enterprise status accords certain privileges and enables the FHLBanks to raise funds at rates slightly above comparable obligations issued by the U.S. Department of the Treasury.

The Federal Housing Finance Board's Mission, Vision, and Values

Mission Statement

The mission of the Finance Board is to ensure that the FHLBanks are safe and sound so they can serve as a reliable source of liquidity and funding for the nation's housing finance and community investment needs.

Vision and Values

Vision: To continue to earn the public's trust, the Finance Board is dedicated to the highest professional standards of accountability and independence to carry out its responsibilities for FHLBank supervision and housing finance mission oversight.

Values: The core values underlying the mission and vision of the Finance Board, which guide its organizational decisions and actions, are:

- **Independence.** The Finance Board is the arm's-length regulator of the FHLBanks and OF.
- **Accountability.** The Finance Board is a steward of the public's trust and will use its resources efficiently and in the public interest.
- **Responsiveness.** The Finance Board aligns its actions with its mission and responds promptly, effectively, and creatively to emerging risks and opportunities in the financial system.
- **Integrity.** The Finance Board discharges its responsibilities fairly and impartially and adheres to the highest standards of ethical conduct.
- **Excellence.** The Finance Board strives for excellence in carrying out its responsibilities and recognizes the contributions of employees who demonstrate the highest professional standards in their work.

The Federal Housing Finance Board's Strategic Goals and Objectives

In its strategic plan for fiscal years 2003 through 2008 ("Strategic Plan"), as amended and updated through August 31, 2004, the Finance Board identified three strategic goals that support the agency's achievement of its mission, as well as seven strategic objectives that provide a framework for the achievement of that mission. These are set out below.

Strategic Goal 1: The Finance Board's Program of Bank Supervision Fosters Safe and Sound Operations at Each of the FHLBanks

Strategic Objectives:

- Strategic Objective 1.1: The FHLBanks Operate Safely and Soundly
- Strategic Objective 1.2: The FHLBanks Meet or Exceed Their Minimum Capital Requirements
- Strategic Objective 1.3: The FHLBanks Raise Funds in the Capital Markets Efficiently and are Role Models for Corporate Transparency and Accountability

Strategic Goal 2: The Finance Board Ensures that the FHLBanks Serve the Nation's Housing Finance and Community Investment Needs

Strategic Objectives:

- Strategic Objective 2.1: The FHLBanks Facilitate the Housing Finance Activities of Their Members
- Strategic Objective 2.2: The FHLBanks Support Affordable Housing and Promote Community Investment

Strategic Objective 3: The Finance Board's Supervisory, Managerial, and Legal Resources Support Effective, Efficient, and Responsive Bank Supervision and Regulation and Housing Oversight

Strategic Objectives:

- Strategic Objective 3.1: The Finance Board Takes Appropriate and Timely Regulatory and Advisory Actions
- Strategic Objective 3.2: The Finance Board Makes Prudent Resource Management Allocations in Order to Fulfill Its Mission Effectively and Efficiently.

STRATEGIC GOAL 1:

The Federal Housing Finance Board's Program of Bank Supervision
Fosters Safe and Sound Operations at Each of the Federal Home Loan Banks

⇒ **Strategic Objective 1.1:** ⇐
The Federal Home Loan Banks Operate Safely and Soundly

Annual Performance Goal 1.1a:

Maintain Effective Risk-Based Supervisory Program, Including the:
Conduct of Annual Safety and Soundness Examinations of the Twelve Federal Home Loan Banks; Provision of Enhanced Examiner Guidance and Training and Conduct of Off-Site Monitoring and Analysis of Their Condition; Annual Testing of Their Interest Rate Risk Sensitivity; and Periodic Testing of Their Market Risk Models

Annual Performance Measure 1.1aa:

Complete Annual Safety and Soundness Examinations of the Twelve Federal Home Loan Banks; Provide Enhanced Examiner Guidance and Training and Conduct Off-Site Monitoring and Analysis of Their Condition; Annual Testing of Their Interest Rate Risk Sensitivity; and Periodic Testing of Their Market Risk Models

Means and Strategies

Under Section 2A(a)(3)(A) of the FHLBank Act, the Finance Board is charged with ensuring that “the FHLBanks operate in a financially safe and sound manner.” The cornerstone of the Finance Board’s safety and soundness supervisory program is a system of periodic on-site and off-site monitoring of the risk profile, condition, and performance of each FHLBank. The on-site monitoring of each FHLBank is carried out through a safety and soundness examination that assesses the FHLBank’s ability to effectively manage credit, market, and operational risks arising from its business and operations, as well as the institution’s financial condition and performance, capital adequacy, corporate governance, and compliance with law, regulation, internal policies of the FHLBank, and policies of the Finance Board. Significant staff resources and timely examiner guidance and training permit examination personnel to keep pace with the increasing complexity of the business of the FHLBanks. Off-site monitoring of the risk levels, condition, and performance of each FHLBank is also conducted throughout the year in conjunction with the examination function. The means and strategies to be employed by the Finance Board in fiscal year 2005 in implementing its system of on-site and off-site monitoring are described below.¹

¹ Unless otherwise noted, any reference to 2005 or any other specific year represents a reference to a fiscal year of the Finance Board.

On-Site Examinations. As required in Section 20 of the FHLBank Act, the Finance Board conducts an on-site safety and soundness examination of each FHLBank during each calendar year. On-site examinations are risk-focused, allowing the agency to concentrate its examination resources on those areas carrying the greatest potential for risk in light of each FHLBank's specific operations and business. In performing pre-examination analysis and planning, the examiner-in-charge for a particular FHLBank, in conjunction with Finance Board senior supervisory management, identifies potential issues and establishes the scope and emphases of the examination on the basis of risks and conditions identified at previous examinations, as well as through quarterly monitoring and other means.

While on site, Finance Board examiners: (i) follow up on issues identified during pre-examination and quarterly monitoring reviews; (ii) test systems, controls, and reports for adequacy and accuracy, including the internal audit function; (iii) assess the FHLBank's risk level and operational soundness; (iv) identify issues that may affect the risk or operating profile of the FHLBank; (v) evaluate financial condition and performance; (vi) evaluate the quality of corporate governance by the FHLBank's board of directors and management; and (vii) test for legal compliance with law, regulation, internal policies of the FHLBank, and policies of the Finance Board. During the examination process, examiners consult with the Finance Board's attorneys, accountants, economists, and analysts as necessary regarding issues within their areas of competence.

At the conclusion of the on-site review, examiners hold an exit conference with FHLBank management to discuss findings. Management is afforded the opportunity to respond to the examination findings, as well as to commit to corrective action where appropriate. A written report of examination is prepared for presentation to the FHLBank's board of directors based upon examiners' findings and management's response. Findings are categorized by degree of severity from "recommendation" to "unsafe and unsound practice or condition." In addition, the report of examination identifies apparent violations of statute or regulation. Following presentation to the FHLBank's board of directors, the board is asked to respond to the findings conclusions contained in the report of examination. After conclusion of the examination, the examiner-in-charge conducts follow-up discussions with the FHLBank on a quarterly or more frequent basis, to monitor its progress in remedying weaknesses and violations identified during the examination.

An automated survey is made available to the president of the FHLBank examined at the conclusion of the examination. The survey is considered part of the supervisory program and is designed to elicit feedback on the quality of the examination.

The Finance Board will complete on-site safety and soundness examinations of all twelve FHLBanks in calendar year 2005. The Finance Board may also conduct System-wide, or horizontal reviews, of select operational issues.

Examiner Guidance and Training. Since 2002, the Finance Board has worked to focus its examination program on the identification and analysis of the risk profile of each FHLBank resulting from its business and operations. In 2005, the agency will continue to revise and update its examination manual (written in 1998) to reflect a risk-focused approach to the conduct of on-site safety and soundness examinations. The objective of the revision of the examination manual is to provide a foundation for the review and assessment of the adequacy of risk controls maintained by each FHLBank, as well as to provide more detailed guidance to examiners generally. In 2005, the Finance Board will review and revise the agency's form report of examination to make the report more closely reflective of the agency's risk-focused examination program.

The agency will continue in 2005 its development of a bank-wide examination rating framework pursuant to which each FHLBank will, at the conclusion of its annual on-site safety and soundness examination, be assigned a composite rating and component ratings based upon the level of credit, market, and operational risk undertaken and the adequacy of its risk management practices, its financial condition and performance, the adequacy of its capitalization, and the quality of its corporate governance. In establishing a ratings framework, the Finance Board seeks to: (i) provide a uniform system for evaluating each FHLBank's risk exposure and risk management, financial performance, capital adequacy, and corporate governance; (ii) identify FHLBanks requiring special supervisory attention; (iii) communicate supervisory concerns to the FHLBanks more effectively; (iv) foster remedial action by the management and board of directors of each FHLBank; and (v) improve the Finance Board's allocation of its supervisory resources. The agency intends to begin the field testing of the ratings framework during its calendar year 2005 examination cycle.

The Finance Board expects that it will continue to distribute Examiner Guidance Bulletins intended to provide agency examiners with timely guidance as to emerging risks and other issues relevant to the examination and supervision of the FHLBanks as well as draft examination work programs for field-testing and comment. In 2005, the agency anticipates that bulletins are likely to be issued in such areas as accounting, FHLBank risk areas, community financial institutions lending, and money laundering.

The Finance Board will offer its examination and other supervisory staff a number of training opportunities in 2005. Staff has attended courses offered during the year by the Federal Financial Institutions Examination Council in the areas of capital markets, financial crime and fraud identification, information technology, and emerging supervisory issues. Supervisory staff has evaluated a variety of e-learning tools for agency use. Based upon the results of the evaluation and other considerations, the agency's acquisition of a comprehensive private label training package will be considered as the basis for the development of a formal training program for supervisory staff. Examination staff is encouraged to pursue studies and obtain professional certifications in subjects relevant to bank supervision, and a number of staff are certified public accountants, chartered financial analysts, financial risk managers, and certified information systems auditors. In 2005, supervisory management staff will receive executive management training to enhance their managerial skills.

In 2004, the Finance Board undertook measures to strengthen the transparency and integrity of its examination program. Most notably, the agency developed and is field-testing enhanced workpaper standards at on-site examinations currently underway. In 2005, the agency will continue these efforts through the implementation of the enhanced workpaper standards, retention of additional staff, and other means.

Measurement and Modeling. During 2005, the Finance Board will continue to employ quantitative methods and computer models to support its annual examination function in the area of market risk measurement and modeling. The agency uses a variety of vendor models to measure risk factors affecting each FHLBank, including changes in interest rates and interest rate spreads, as well as interest rate volatility. The agency typically calculates a variety of market risk measures, including duration, convexity, and spread duration. In addition, the quality of the market risk model used by each FHLBank and the FHLBank's ability to respond to changing market and economic circumstances are also assessed. The market risk component of the FHLBank's risk-based capital requirement under Part 932 of the Finance Board's regulations is based upon a Value-at-Risk calculation conducted by the FHLBanks. In 2005, the Finance Board will also focus upon mortgage prepayment and default risk modeling as well as data and information systems supporting its risk modeling activities.

The Finance Board will continue its development of a risk exposure data standard or alternative means to facilitate its modeling of interest rate risk at each FHLBank. In 2005, the agency will establish ongoing discussions with the FHLBanks regarding risk exposure modeling and the data necessary for the Finance Board to model interest rate risk at each FHLBank. As part of that effort, the Finance Board will assess the viability and desirability of developing an enterprise risk management database that would store data required to support the modeling of interest rate risk at each of the FHLBanks. The Finance Board also expects that its anticipated adoption in 2005 of a data quality and timeliness regulation will assist the agency in ensuring receipt of data that are both timely and accurate for the purpose of interest rate risk management and other supervisory activities.

In 2004, the Finance Board selected and awarded a contract to a vendor to develop and implement an enterprise-wide risk management system which will permit the agency to calculate market risk exposures for the System as a whole on a quarterly basis and to produce quarterly risk exposure reports for each FHLBank. During 2005, the Finance Board will explore strategies to ensure that the enterprise-wide risk management system is configured and implemented in a manner most responsive to the agency's needs as well as to ensure the availability of consistent, uniform, and valid data from the FHLBanks that is necessary to the successful functioning of the system. Full implementation of the system is planned for calendar year 2006.

The Finance Board continues to recruit, train, and retain staff with the technical ability to assess market risk and provide technical support to examiners on market risk through measurement and modeling.

Off-Site Monitoring and Analysis. During 2005, the Finance Board will continue to conduct ongoing off-site monitoring of the condition and performance of, and regulatory compliance by, the FHLBanks, in the context of the financial, credit, and mortgage markets in which they operate. The agency analyzes the financial condition and fiscal and operational performance of each FHLBank, and tracks examination and regulatory compliance issues of each, to identify potential supervisory issues to be discussed with the FHLBank or investigated more fully during the next on-site examination of that institution. For its analysis, the agency uses proprietary and non-propriety databases, as well as external resources. The agency performs financial and economic analyses of conditions and trends confronting the System and the financial services industry, and the effects of these upon System condition, profitability, and stability.

The Finance Board maintains a strong capacity to conduct comprehensive off-site monitoring and analysis of the activities, financial condition, and performance of the FHLBanks and of market developments that may affect the System. It has done so through the retention of a group of financial analysts for its FHLBank “analyst program.” These analysts possess specialized expertise in finance, credit principles, business financial management, and capital mortgage markets, as well as skill sets for evaluating financial and operational characteristics of complex financial institutions and analyzing the risk profile of such institutions. Among other things, the bank analysts assess the risk profile for the individual FHLBanks.

Each bank analyst is responsible for the ongoing monitoring of several FHLBanks. By focusing upon specific FHLBanks, each bank analyst will develop a more thorough understanding of the strategies of institution he or she covers, including its financial and operating environment and risk profile. In addition to preparing periodic analyses of the covered FHLBank, the bank analyst works closely with the agency’s examination staff in planning on-site examinations keyed to specific identified risks undertaken by the FHLBank. In addition, each bank analyst participates in the annual on-site safety and soundness examination of each covered FHLBank. Beyond focusing upon a specific group of FHLBanks, the bank analysts prepare topical reports on System-wide issues.

In 2005, the Finance Board will continue to assess and improve data submissions by the FHLBanks to the agency to assure that information currently collected supports the agency’s mission. The timeliness and accuracy of data collected by the agency will also be enhanced upon the agency’s adoption of a data quality and timeliness regulation, which is currently under development. The Finance Board will also continue its efforts to integrate, maintain, and improve its supervisory data assets.

The Finance Board will continue its development of an enterprise data repository to standardize and link disparate data collection and management processes within the agency and facilitate the retrieval, manipulation, and analysis of agency-wide data outside of any particular agency system. The establishment of the enterprise data repository is expected to greatly facilitate agency-wide access to data and data sets and significantly enhance the agency’s off-site monitoring capabilities. The Finance Board

anticipates the selection in 2005 of a contractor to create a blueprint for and carry out implementation of the enterprise data repository.

Annual Performance Goal 1.1b:

Apply Statutory, Regulatory, and Other Appropriate Remedies in Response to Identified Supervisory Concerns

Annual Performance Measure 1.1bb:

Assess Effectiveness of Required Corrective Actions at Annual On-Site Safety and Soundness Examinations and at Reviews Conducted Quarterly or at More Frequent Intervals

Means and Strategies

The Finance Board generally resolves supervisory concerns identified during annual on-site safety and soundness examinations of an FHLBank through discussions between agency officials and the management and board of directors of the FHLBank. During the examination process, Finance Board examiners bring their concerns to the attention of the FHLBank's management and solicit management's response. As the situation warrants, a commitment to take corrective action may be included in the institution's response. Both agency findings and management's response are reflected in the report of examination that is presented to the FHLBank's board of directors. Following conclusion of the examination, the agency conducts follow-up discussions with the FHLBank on a quarterly or more frequent basis to monitor progress in resolving the identified concerns, and thereafter confirms that these have been corrected during the next annual on-site examination.

When, during the course of an examination of an FHLBank, the Finance Board identifies a significant supervisory or compliance issue posing risk to a FHLBank, it will require the FHLBank to develop a corrective action plan to correct the violation or weakness within an appropriate timeframe. Thereafter, the agency will monitor the FHLBank's progress in implementing the plan through follow-up discussions conducted on a quarterly or more frequent basis and subsequent annual on-site examinations. Where warranted to ensure committed remedial action from the FHLBank, the agency will invoke its informal and formal enforcement powers conferred in Sections 2B(a)(2) and 2B(a)(5) of the FHLBank Act, including supervisory resolutions and agreements, cease and desist orders, temporary cease and desist orders, removal orders and civil money penalty assessments. If such remedies are applied, the agency will gauge their effectiveness through follow-up discussions conducted with FHLBank management on a quarterly or more frequent basis and subsequent on-site examinations of the FHLBank.

During examinations of and periodic follow-up discussions to be held with FHLBanks in 2005, the Finance Board will continue to assess the effectiveness of corrective actions it has required to be undertaken by the FHLBanks and, where warranted, require further corrective action.

⇨ **Strategic Objective 1.2:** ⇩
**The Federal Home Loan Banks Meet or Exceed
Minimum Capital Requirements**

Annual Performance Goal 1.2a:

Each Federal Home Loan Bank Meets or Exceeds its Applicable Minimum Capital Requirement on a Continuous Basis

Annual Performance Measure 1.2aa:

Each Federal Home Loan Bank Satisfies the Capital Requirements Applicable to It and Prudently Manages Capital and Earnings

Means and Strategies

Section 6 of the FHLBank Act mandates that the Finance Board adopt regulations prescribing total capital and risk-based capital requirements that incorporate minimum standards enumerated in the statute. It also requires that the board of directors of each FHLBank submit for agency approval a plan establishing and implementing a capital structure for the FHLBank that, among other things, satisfies such minimum capital standards and establishes a level of investment by members in FHLBank stock that will be sufficient to ensure that the FHLBank remains in compliance with such standards.

In Part 933 of its regulations, the Finance Board required the submission by each FHLBank of a plan to establish and implement a new capital structure for the FHLBank under which the FHLBank would be able to satisfy the new capital requirements called for in Section 6 of the FHLBank Act and prescribed by the agency in Part 932 of its regulations. Each FHLBank submitted a capital structure plan to the agency, and, by July 2002, the agency had approved these. To date, eight of the twelve FHLBanks have implemented their respective capital structure plans.

Each FHLBank that has implemented its capital structure plan must satisfy the total capital and risk-based capital requirements of Part 932 (subject to a provision permitting transition to its requirements). These include the maintenance of: (i) total capital of at least four percent of the FHLBank's total assets; (ii) permanent capital at least equal in amount to the sum of the FHLBank's credit risk, market risk, and operations risk capital requirements, each as calculated under Part 932; (iii) a ratio of total capital to total assets of at least five percent, where total capital is computed by multiplying the FHLBank's permanent capital by 1.5 and adding all other components of total capital to the product; and (iv) additional amounts of total capital or permanent capital required by the Finance Board for purposes of safety and soundness. Such FHLBanks are also required to report their risk-based capital requirement by component amount, as well as their actual total capital amount and permanent capital amount, at least monthly, to the agency.

Each FHLBank that has not implemented its capital structure plan must adhere to an alternative leverage requirement contained in Section 966.3(a) of the Finance Board's

regulations until plan implementation occurs and compliance with the requirements of Part 932 can be achieved. The total assets of each FHLBank subject to this leverage requirement may not exceed twenty-one times the total of the institution's paid-in capital stock, retained earnings, and reserves (excluding loss reserves and liquidity reserves for deposits), except under circumstances specified in the regulation. Each FHLBank subject to this requirement is required to submit a leverage report to the agency on a monthly basis. Each such FHLBank must also maintain capital stock equal to the greater of five percent of advances or one percent of member mortgage assets.

In 2004, the Finance Board began efforts to stimulate more rigorous self-assessment by each FHLBank of its capital management and retained earnings relative to its risk profile. The agency also called for an increase in capital and retained earnings levels as appropriate. Those efforts will continue in 2005. On January 7, 2004, the agency issued guidance in assessing an FHLBank's capital management and retained earnings in light of supervisory guidance provided to the FHLBanks on August 18, 2003. The latter directs each FHLBank to assess, at least annually beginning in 2004, the adequacy of its retained earnings in light of future financial and economic scenarios and for its board of directors to adopt a retained earnings policy before March 31, 2004. Each FHLBank adopted a retained earnings policy by this date. In 2004, the agency has reviewed the retained earnings policy of each FHLBank as part of its annual on-site safety and soundness examinations and will continue to do so in 2005.

The Finance Board monitors compliance with applicable capital requirements and evaluates capital management as part of its on-site examination of each FHLBank each year. Issues and concerns identified during the examination regarding the sufficiency or management of capital are communicated to FHLBank management and reflected, together with management's response, in the report of examination, and thereafter processed and monitored in the same manner as other supervisory concerns. Between annual on-site examinations, capital, including retained earnings, is monitored off-site on a monthly basis using financial information collected from the FHLBanks. Both on-site and off-site reviews will be conducted for each FHLBank in 2005.

Annual Performance Goal 1.2b:

Each Federal Home Loan Bank Implements or Makes Progress in Implementing its Capital Structure Plan

Annual Performance Measure 1.2bb:

Conduct Review of Proposed Federal Home Loan Bank Market Risk or Cash-Flow Models and Risk Assessment Procedures and Controls and Proposed Federal Home Loan Bank Capital Structure Plan Amendments



Means and Strategies

The risk-based capital requirements mandated by Section 6 of the FHLBank Act and implemented in Part 932 of the Finance Board's regulations impose capital charges upon each FHLBank on the basis of the credit, market, and operations risks undertaken by that institution. For this reason, before each FHLBank's capital structure plan becomes effective, the Finance Board must approve the internal market risk model or internal cash flow model used to calculate the credit risk component of the FHLBank's risk-based capital requirement, as well as the risk assessment procedures and controls to be used to manage its credit, market, and operations risk. The Finance Board must also approve any changes proposed to be made by each FHLBank to an internal risk market model or internal cash-flow model that has already received agency approval.

The agency has reviewed and approved the market risk models and risk assessment and control procedures of the eight FHLBanks that have implemented their capital structure plans and of two other FHLBanks that have not yet done so. In 2005, the Finance Board will continue to review the adequacy of the market risk models and risk assessment procedures of these FHLBanks as part of the annual on-site safety and soundness examination of these institutions. The agency will also review proposed changes by such FHLBanks to previously-approved internal risk models or cash-flow models. For the two FHLBanks that have not implemented their capital structure plans and whose market risk models or cash-flows models and risk assessment and control procedures have not yet been approved, the Finance Board will continue to assess the FHLBanks' progress with respect to their risk assessment and control procedures, as well as their risk modeling.

Part 933 of the agency's regulations requires each FHLBank to provide certain information to its members prior to converting to its new capital structure. As a matter of practice, each implementing FHLBank has submitted such materials to the Finance Board for its review, and the agency has provided comments in response, prior to the distribution of the materials to the institution's members.

Where a FHLBank seeks to amend its capital structure plan, agency approval is required under Section 6 of the FHLBank Act. The agency will continue to consider such requests in 2005.

 **Strategic Objective 1.3:** 
**The Federal Home Loan Banks Raise Funds in the Capital
Markets Efficiently and are Role Models for Corporate Transparency and
Accountability**

Annual Performance Goal 1.3a:

Conduct Assessment of System Cost of Funds and Ratings of Federal Home Loan Bank System Consolidated Obligations and Individual Federal Home Loan Banks by Nationally Recognized Statistical Rating Organizations

Annual Performance Measure 1.3aa:

Conduct Semi-Annual Assessment of Federal Home Loan Bank System Cost of Funds

Means and Strategies

The FHLBanks raise funds in the capital markets through the issuance of consolidated obligations on which they are jointly and severally liable. The FHLBanks' status as government-sponsored enterprises enables them to raise funds at rates slightly above those of obligations of similar maturity issued by the U.S. Department of the Treasury. The ability of the FHLBanks to issue consolidated obligations at such rates is important to their ability to efficiently fund their operations. Accordingly, Section 2A(a)(3)(B)(iii) of the FHLBank Act directs the Finance Board to ensure that the FHLBanks remain able to raise funds in the capital markets.

To measure the efficiency of the FHLBanks in raising funds, the agency conducts a semi-annual review of the FHLBanks' funding costs relative to those of the U.S. Department of the Treasury as well as with those of other government-sponsored enterprises engaged in housing-related activities. Thus, it compares the spread between FHLBank consolidated obligations with those of debt instruments of comparable type and similar maturity issued by the U.S. Department of the Treasury. It also compares the spread between FHLBank debt obligations and those of comparable type and similar maturity issued by Fannie Mae and Freddie Mac. The Finance Board will conduct these semiannual analyses in 2005. Comparisons of System funding costs to interest rate indices such as LIBOR are also conducted from time to time.

Annual Performance Measure 1.3aa:

Monitor Compliance by Federal Home Loan Banks with Federal Housing Finance Board Requirement of Minimum Ratings by Nationally Recognized Statistical Ratings Organizations

Means and Strategies

To ensure that the FHLBanks are able to issue consolidated obligations in the capital markets at the lowest possible cost, the Finance Board, in Section 966.3(b) and (c) of its regulations, requires the maintenance of minimum credit ratings on their consolidated obligations as well as on each FHLBank as an individual issuer under certain circumstances. Section 966.3(b) requires that the FHLBanks, collectively, obtain from a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Standard & Poors Ratings Group ("Standard & Poors") and Moody's Investors Service, Inc. ("Moody's"), and at all times maintain, a current credit rating on their consolidated

obligations. It also requires each FHLBank to operate in such manner and take any actions necessary to ensure that System consolidated obligations receive the highest credit rating from any NRSRO by which such obligations have been rated. Section 966.3(c) requires each FHLBank to operate in such manner and take such actions necessary to ensure that it has and maintains at least the second highest individual issuer credit rating from a NRSRO where such rating is a meaningful measure of the FHLBank's financial strength, and is updated by the NRSRO at intervals prescribed therein.

Standard & Poors and Moody's have rated the long-term consolidated obligations of the FHLBanks "AAA" and "Aaa," respectively, and the short-term consolidated ratings of the FHLBanks, "P-1" and "A-1+," respectively, their highest ratings; each of the FHLBanks has received an individual issuer credit rating of at least "AA" or "Aa," respectively, the second highest such rating awarded by Standard & Poors and Moody's. In 2005, the Finance Board will continue to monitor the application of these ratings to System consolidated obligations and the FHLBanks individually, as appropriate, through participation in ratings conference calls and other discussions with NSRSOs, as well as through other means.

Annual Performance Goal 1.3b:

Assess Compliance of Federal Home Loan Bank and Federal Home Loan Bank System Financial Reporting and Federal Home Loan Bank Consolidated Obligation Sales with the Disclosure and Customer Suitability Requirements of the Federal Housing Finance Board's Regulations

Annual Performance Measure 1.3bb:

Conduct Review of Annual and Quarterly Federal Home Loan Bank System Combined Financial Reports and Financial Reports Issued by Individual Federal Home Loan Banks for Compliance with the Disclosure Requirements of the Federal Housing Finance Board Regulations

Means and Strategies

Part 985 of the Finance Board's regulations requires the preparation and issuance of combined System-wide annual and quarterly financial reports ("Bank System Combined Reports") by OF on behalf of the FHLBanks. Accordingly, each year OF prepares and issues an annual and three quarterly Bank System Combined Reports derived from financial information submitted to it by the FHLBanks. Part 985 requires that the Bank System Financial Reports be generally consistent with requirements of Regulations S-K and S-X of the U.S. Securities and Exchange Commission ("SEC") in scope, form, and content, with exceptions set forth in that part. In addition to the Bank System Combined Reports prepared and issued by OF, annual and quarterly financial reports are prepared and issued by each of the FHLBanks. Part 989 of the Finance Board's regulations requires that any financial statements contained in FHLBank-issued reports be consistent in both form and content with the financial statements presented in the Bank System Combined Reports.

The Finance Board conducts a review of all Bank System Combined Reports prepared and issued by OF as well as of all annual and quarterly reports prepared and issued by the individual FHLBanks. In its review, the agency assesses consistency of the reports with the requirements of Parts 985 and 989, conformity with generally accepted accounting principles, as well as transparency. The agency will, if appropriate, direct OF or an issuing FHLBank, as applicable, to modify the manner of preparation, filing, amendment, or distribution of such reports, including, where warranted, the filing of a restatement of such reports. Annual and quarterly Bank System Combined Reports issued by OF and individual FHLBank-issued reports will continue to be reviewed by the agency in 2005.

On June 23, 2004, the Finance Board adopted Part 998 of its regulations to require each FHLBank to register a class of its securities with the SEC under Section 12(g) of the Securities Exchange Act of 1934 (“1934 Act”). By registering a class of equity securities with the SEC under Section 12(g), each FHLBank will become subject to the 1934 Act’s periodic disclosure regime, as interpreted and administered by the SEC. That disclosure regime includes the periodic preparation and filing of public disclosures relating to an institution’s financial condition, results of operations, trends or uncertainties affecting its business, and management’s assessment of its business and financial condition that includes supporting financial information and certifications. These disclosures will be filed with the SEC as well as with the Finance Board on a concurrent basis. The preparation and issuance of Bank System Combined Reports will continue to be regulated by the Finance Board, in consultation with the SEC, but will not be subject to SEC disclosure or filing requirements. However, OF, in preparing and issuing, and the agency, in reviewing, the Bank System Combined Reports will have the benefit of the periodic disclosure documents filed by the FHLBanks pursuant to the 1934 Act, reviewed by SEC staff. Part 998 requires that each FHLBank file a registration statement covering a class of equity securities with the SEC by June 30, 2005 and ensure its effectiveness under Section 12 of the 1934 Act by August 29, 2005.

On August 6, 2004 the Finance Board issued supervisory guidance to the FHLBanks establishing a requirement that FHLBanks report their progress in registering a class of equity securities with the SEC pursuant to Part 998 of the agency’s regulations. In 2005, the agency will monitor progress by the FHLBanks in complying with the requirements of Part 998. The agency also anticipates the issuance in 2005 of supervisory guidance to the FHLBanks with respect to accounting and other issues attending the registration process.

<p><u>Annual Performance Measure 1.3bb:</u> Conduct Annual On-Site Examination of the Office of Finance</p>
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Means and Strategies

The Finance Board conducts an annual on-site examination of OF to assess its ability to carry out prescribed functions under Part 985 of the agency’s regulations, as well as its operations, practices, and corporate governance. The examination is risk-focused and its

scope is determined based upon risks and conditions identified at previous examinations as well as through other means. While on site, agency examiners: (i) follow up on issues identified through pre-examination analysis and planning; (ii) test systems, controls, and reports for adequacy and accuracy, including the internal audit function; (iii) assess OF's risk level and operational soundness; (iv) identify issues that may affect the risk or operating profile of OF; (v) evaluate OF's quality of corporate governance; and (vi) test for compliance with law, regulation, and OF internal policy, including policies requiring the maintenance by participating underwriters and broker-dealers of satisfactory sales suitability practices.

During the examination process, examiners consult with agency attorneys, accountants, economists, and analysts, as necessary, with regard to issues within their areas of competence. Issues and concerns identified by agency examiners are communicated to OF management and reflected, together with management's response, in a report of examination. Thereafter, such matters are processed and monitored in the same manner as matters of supervisory concern arising in connection with the examination of an FHLBank.

The Finance Board will conduct its on-site examination of OF in December 2004.

STRATEGIC GOAL 2:

The Federal Housing Finance Board Ensures that the Federal Home Loan Banks Serve the Nation's Housing Finance and Community Investment Needs

 **Strategic Objective 2.1** 
The Federal Home Loan Banks Facilitate the Housing Finance Activities of Their Members

Annual Performance Goal 2.1a:

Conduct Review of Advance Portfolio of Each Federal Home Loan Bank as Part of Annual On-Site Safety and Soundness Examination

Annual Performance Measure 2.1aa:

Complete Review of Advance Portfolio of Each Federal Home Loan Bank as Part of Annual On-Site Safety and Soundness Examination

Means and Strategies

The authority for and general conditions attending the extension of advances by the FHLBanks to their member institutions and qualified housing associates are contained in Sections 7(j), 9, 10, and 10b of the FHLBank Act and in Part 950 of the Finance Board's regulations. The objective of Part 950 is to promote consistent, fair, and transparent access to advances for eligible entities and to ensure adherence by the FHLBanks to public purpose safeguards established in the FHLBank Act and safety and soundness principles in the making of advances. The regulation prescribes authorized purposes for advances, permissible limitations upon member access to advances based upon member capitalization and condition, eligible collateral to secure advances, documentation requirements, permissible and required terms and conditions, required disclosures in the case of putable and convertible advances, permissible and required transaction fees, collateral policies and administration, lien priority of advances, member borrowing limits, and other matters.

As part of the annual on-site safety and soundness examination conducted of each FHLBank, the Finance Board evaluates the institution's advance and collateral policies and practices to ensure consistency with the FHLBank Act and Part 950 of its regulations. In addition, the agency assesses the degree of credit, market, and operational risk inherent in that FHLBank's advance activities and the extent to which they are successfully managed by the institution. Other areas of examination interest include: (i) the use of advances and the pledging of collateral by community financial institutions (which, by statute, may use long-term advances to support small business, small farm, and small agricultural business lending, in addition to residential housing lending); (ii)

standards and criteria employed by the FHLBank for differential pricing of advances and collateral evaluation; and (iii) practices in marketing and disclosure of advance products, including those with embedded options such as putable or convertible advances, to assess transparency in the terms and conditions of these advance products. Issues and concerns identified during the examination with advance and collateral policies and practices are communicated to FHLBank management and reflected, together with management's response, in the report of examination. Such matters are thereafter processed and monitored in the same manner as other matters of supervisory concern.

Between annual on-site examinations, the Finance Board conducts off-site supervision of FHLBank advance activities and collateral practices. First, the agency monitors the size and composition of each FHLBank's advance portfolio on a quarterly basis utilizing quarterly data submitted by each institution. Second, it conducts an annual survey of FHLBanks as to the types of collateral securing their advances and related information. Third, pursuant to Part 980 of the agency's regulations, a FHLBank proposing to conduct advance activities or accept certain collateral entailing new risks for that institution is required to submit a new business activity notice to the agency before the initiation of the activity or acceptance of the collateral. In its review of such notices, the agency considers both the safety and soundness implications of the proposal and its compliance with law and regulation.

The Finance Board will examine the advance portfolios each FHLBank as part of its 2005 annual on-site examination and will conduct off-site monitoring of the size and composition of these each quarter. It will review new activity notices received by it in 2005 relating to the acceptance by an FHLBank of collateral entailing new risks.

Annual Performance Goal 2.1b:

Conduct Review of Acquired Member Asset Portfolio of Each Federal Home Loan Bank as Part of Annual On-Site Safety and Soundness Examination

Annual Performance Measure 2.1bb:

Complete Review of Acquired Member Asset Portfolio of Each Federal Home Loan Bank as Part of Annual On-Site Safety and Soundness Examination

Means and Strategies

Pursuant to Part 955 of the Finance Board's regulations, FHLBanks are authorized to hold real estate assets—"Acquired Member Assets" ("AMA")—acquired from or through FHLBank members or housing associates. AMA assets are acquired by FHLBanks pursuant to FHLBank-sponsored programs under which the FHLBanks fund or acquire mortgage assets from a member institution or housing associate through a risk structure that allocates market risk to the FHLBank and credit risk to both the member or housing associate and the FHLBank on a shared basis. All FHLBanks participate in such programs. Part 955 prescribes permissible and required features of such programs,

including eligible assets, risk allocation structures, risk-based capital requirements, and reporting requirements.

As part of the annual on-site safety and soundness examination conducted at each FHLBank, the Finance Board evaluates the compliance of each FHLBank's AMA program and activities with the requirements of Part 955 of its regulations. In addition, the evaluation includes an assessment of the degree of credit, market, and operational risk inherent in an FHLBank's AMA activities and the extent to which these risks are successfully managed by the institution. Other areas of examination interest include: (i) the manner in which an FHLBank may purchase AMA Program assets; (ii) practices in the marketing of AMA products and the adequacy of disclosures provided by the FHLBank to participating members and housing associates; (iii) compliance with prudent lending policies; and (iv) compliance with generally accepted accounting principles. Issues and concerns identified during the examination with AMA program policies and practices are communicated to FHLBank management and reflected, together with management's response thereto, in the report of examination. Such matters are thereafter processed and monitored in the same manner as other matters of supervisory concern.

In addition to annual on-site examinations, the Finance Board supervises FHLBank AMA program activities through off-site means. First, at least annually, the agency analyzes certain information received from each FHLBank as to geographic distribution and performance status of AMA program loans over time, as well as demographic characteristics of AMA program loan borrowers. Second, pursuant to Part 980 of the agency's regulations, an FHLBank proposing to conduct AMA program activity or acquire an AMA program asset entailing new risks for that institution is required to submit a new business activity notice to the agency before the initiation of the activity or acquisition of the asset. In its review of such notices, the agency considers safety and soundness implications of the proposal, product compliance with law and regulation, product responsiveness to member needs and product effectiveness in supporting the nation's housing finance system.

The agency will examine the AMA programs and program loans of the FHLBanks as part of its annual on-site examination of each institution in 2005 and will conduct analyses of certain information received from the FHLBanks as to the geographic distribution and performance status of AMA program loans over time, as well as to demographic characteristics AMA program loan borrowers, once in 2005.

In 2003 the Finance Board proposed to amend Parts 955, 932, and 900 of its regulations to provide greater flexibility to the FHLBanks in administering AMA asset programs and portfolios. The proposed rule, which was withdrawn later in 2003, is currently under revision by agency staff.



Strategic Objective 2.2:
**The Federal Home Loan Banks Support Affordable Housing and Promote
Community Development**

Annual Performance Goal 2.2a:

Conduct Annual On-Site Examination of the Affordable Housing Program, Community Investment Program and, as Applicable, Other Community Investment Cash Advance Program, of Each Federal Home Loan Bank

Annual Performance Measure 2.2aa:

Complete Annual On-Site Examination of the Affordable Housing Program, Community Investment Program and, as Applicable, Other Community Investment Cash Advance Program, of Each Federal Home Loan Bank

Means and Strategies

Section 10 of the FHLBank Act establishes affordable housing and community investment requirements and opportunities for the FHLBanks. It is a strategic objective of the Finance Board to support the affordable housing and community investment objectives of the FHLBank Act by maintaining an effective program of annual on-site examination for the AHP, Community Investment Program (“CIP”), and as applicable, other Community Investment Cash Advance program (“CICA”), of each FHLBank. The programs and the agency’s examination program for them are described below.

AHP. Section 10(j) of the FHLBank Act and Part 951 of the Finance Board’s regulations require each FHLBank to establish and maintain an AHP to subsidize the interest rate on advances made to members engaged in lending for long term, very low-, low-, and moderate income, owner-occupied and affordable rental housing at subsidized interest rates. AHP subsidies consist of either grants or below-market rate advances given to members for a specific approved projects in support of affordable housing targeted to very low-, low-, and moderate-income households. The FHLBank Act requires each FHLBank annually to contribute to its AHP ten percent of its net income for the previous year or, if greater, the *pro rata* share of an aggregate contribution for the twelve FHLBanks of at least \$100 million. Based upon 2003 net earnings, the FHLBanks collectively are required to make AHP contributions of \$190 million in 2004.

In 2005, the Finance Board staff anticipates that proposals to amend AHP may be considered. A revised rule would modify the current regulation, which has been effective since January 1998, to make the regulation more effective in promoting AHP at the FHLBanks to better reflect housing needs and priorities in their respective districts. A revised regulation could also allow each FHLBank to adopt more innovative approaches in addressing the affordable housing needs of its district while reducing transaction costs for sponsors, members, and the FHLBank. Key changes for consideration include greater flexibility of the FHLBanks to select scoring criteria that meet district housing needs and additional options for the FHLBanks to monitor residential projects and program operations.

In the Strategic Plan, the Finance Board has pledged to assess the effectiveness of each FHLBank’s AHP. An accurate and comprehensive information system is essential to

meet this strategic objective. Toward this end, the agency has embarked upon a complete restructuring of its existing AHP electronic information system. Deficiencies in the existing information system are being addressed. The revised database will be designed to provide improved measurements of the results of the AHP and its effectiveness in achieving the objectives of the FHLBank Act and the Finance Board's regulations. The revised information system is expected to become operational in calendar year 2005.

CIP. Section 10(i) of the FHLBank Act requires each FHLBank to establish a CIP that provides advances to members priced at the cost of funds plus reasonable administrative costs. Members can use these funds to: (i) finance home purchases by families whose income does not exceed 115 percent of the median income for the area; (ii) finance the purchase or rehabilitation of housing for occupancy by families whose income does not exceed 115 percent of the median income for the area; and (iii) finance commercial and economic development activities that benefit low- and moderate-income families, or activities that are located in low- and moderate-income neighborhoods. In the coming months, the Finance Board intends to review the adequacy of its CIP electronic information system.

CICA. Section 10(j)(10) of the FHLBank Act provides that the FHLBanks may voluntarily establish other community investment advance programs. In Part 952 of its regulations, the Finance Board has authorized the FHLBanks to establish CICA programs that support targeted community lending for eligible beneficiaries. CICA loans and grants are used in underserved markets as well as to support a variety of revitalization efforts and economic expansion in growing markets.

In 2005, the Finance Board staff anticipates that proposals to amend the CICA regulation may be considered by the Board of Directors. The revised rule would likely make technical corrections to and clarify the current regulation's provisions, such as to enhance the utility of FHLBank community lending plans required under Part 944 of the agency's regulations.

Examination Program. The Finance Board's program of examination of the AHP, CIP, and, as applicable, other CICA program, of each FHLBank is structured to focus upon the specific requirements of each such program. In its examination of each FHLBank's AHP, the agency reviews policies, procedures, and controls, including funds reconciliation and board of directors and management oversight, award processes and uses of funds to assure that these adhere to the requirements of Section 10(j) of the FHLBank Act and Part 951 of the agency's regulations. A sample of AHP projects is tested for compliance with the requirements of Part 951. In its examination of each FHLBank's CIP, the agency reviews eligibility of advances, pricing methodology employed, and the application of policies and procedures to verify members' appropriate use of advances to assure that these adhere to the requirements of Section 10(i) of the FHLBank Act. In its examination of an FHLBank's CICA program, the agency reviews program adherence to the requirements of Section 10(j)(10) of the FHLBank Act and Part 952 of the agency's regulations, including the documentation of compliance with

targeting requirements and the existence of policies and procedures to verify members' appropriate use of funds.

At the conclusion of the on-site review, examiners hold an exit conference with the FHLBank's management to discuss issues raised in the examination. Examiners subsequently provide written findings memoranda to the FHLBank's management and management is afforded the opportunity to respond to the examination findings, as well as to commit to corrective action where appropriate. A written report of examination is prepared for presentation to the FHLBank's board of directors based upon examiners' findings and management's responses. Findings are categorized "recommendation," "weakness," "violation," or "referral." Following presentation to the FHLBank's board of directors, the board is asked to respond to any findings and conclusions contained in the report of examination. After conclusion of the examination, the Finance Board conducts periodic follow-up discussions with management of the FHLBank to monitor the FHLBank's progress in remedying any weaknesses and violations identified during the examination.

The Finance Board conducts its on-site examination of the AHP, CIP, and, as applicable, other CICA program, of each FHLBank, on an annual calendar year cycle consistent with its practice in conducting annual on-site safety and soundness examinations of each FHLBank. In 2005, the examination for these programs will entail comprehensive on-site examinations for nine of the FHLBanks. Three FHLBanks will receive examinations of key aspects of their programs. Examination teams will be comprised of two examiners and a community development specialist. A program analyst or other appropriate agency official may also participate in each examination. The agency will initiate the development of examination procedures and an examination manual appropriate to FHLBank AHP, CIP, and other CICA programs.

Annual Performance Goal 2.2b:

Apply Statutory, Regulatory, and Other Appropriate Remedies in Response to Identified Agency Concerns

Annual Performance Measure 2.2bb:

Assess Effectiveness of Required Corrective Actions at Annual On-Site Examination or at Periodic Follow-Up Reviews

Means and Strategies

The Finance Board generally resolves concerns identified during its examination of the AHP, CIP, and, as applicable, other CICA program, of an FHLBank through discussions between agency officials and the management and board of directors of the FHLBank. During the examination process, examiners bring their concerns to the attention of the FHLBank's management and solicit management's response together with a commitment to take corrective action where appropriate. Both agency findings and management's response are reflected in the report of examination that is presented to the FHLBank's board of directors for response. Where the agency identifies issues of significant

concern, it will require the FHLBank to develop a corrective action plan that ensures the resolution of the issues within an appropriate timeframe. Following conclusion of the examination, the agency conducts follow-up discussions with the FHLBank on a periodic basis to monitor the latter's progress in resolving such concerns, and thereafter confirms that the issues have been corrected during the next on-site examination.

Where warranted, the Finance Board will require the FHLBank to take additional remedial action depending upon the type of program involved and the nature of its concern. In the case of an FHLBank's AHP, the agency may institute an enforcement proceeding regarding the repayment of an AHP subsidy by an FHLBank member, project sponsor, or project owner, or the FHLBank, where one of these persons or entities has made an unauthorized use of the subsidy, or initiate a proceeding to suspend or debar a member, project sponsor, or project owner from participation in the program under certain circumstances. Similarly, the agency retains the authority to designate another FHLBank to administer all or a portion of another FHLBank's annual AHP contribution where the latter institution has mismanaged its AHP program. Likewise, an FHLBank failing to use or commit its full annual AHP contribution could be required to deposit ninety percent of the unused or uncommitted amount in an Finance Board- established and-administered Affordable Housing Reserve Fund, with the remaining amount to be used or committed by the FHLBank in the following year. In the case of an FHLBank's AHP, CIP, and other CICA program, the Finance Board may require an FHLBank to reclassify advances not adhering to applicable statutory and regulatory requirements as non-AHP, CIP, or CICA advances. If such remedies are applied, the agency will assess their effectiveness through follow-up discussions conducted with FHLBank management on a periodic basis and subsequent on-site examinations of the FHLBank.

Annual Performance Goal 2.2c:

Conduct Annual Review of Federal Home Loan Bank Community Lending Plans and Biennial Review of Federal Home Loan Bank Member Community Support Statements

Annual Performance Measure 2.2cc:

Complete Annual Review of Federal Home Loan Bank Community Lending Plans and Biennial Review of Federal Home Loan Bank Member Community Support Statements

Means and strategies

Pursuant to Part 944 and Section 952.4 of the Finance Board's regulations, each FHLBank is required to seek Finance Board review of and adopt an annual community lending plan that requires the institution to: (i) conduct market research in its district; (ii) describe the manner in which it will address identified credit needs and market opportunities in its district for targeted community lending; (iii) consult with its advisory council and its members, housing associates, and public and private economic development organizations in its district in developing and implementing the plan; and (iv) establish quantitative community lending performance goals for that year.

In reviewing the community lending plan, the Finance Board assesses adherence by the plan to the requirements of Part 944. Issues and concerns identified by the agency are communicated to FHLBank management for resolution and are considered by the agency at the next annual on-site examination of the FHLBank's AHP, CIP, and, as applicable, other CICA program. Continuing concerns are communicated to FHLBank management and reflected, together with management's response, in the report of examination and thereafter processed and monitored in the same manner as other matters of concern in connection the examination of the FHLBank's AHP, CIP, and, as appropriate, other CICA program.

In 2005 the Finance Board will complete the review of community lending plans of the twelve FHLBanks.

Part 944 also mandates the solicitation and review by the Finance Board of community support statements of an FHLBank member approximately once every two years through a notification and review procedure prescribed in that part. In its consideration of a member's community support statement, the agency will take into account a member's performance under the Community Reinvestment Act of 1977 ("CRA"), if the institution is subject to that act, and its record of lending to first-time homebuyers. The agency generally acts on each community support statement within seventy-five days of the date it deems the statement to be complete, and thereafter provides a written notice to the member and its FHLBank as to its determination, together with its reason for such action.

The Finance Board will restrict a FHLBank member's access to long-term advances in the event that the member has: (i) failed to comply with the requirements of Part 944; (ii) submitted a community support statement that was not approved by the agency; (iii) in the case of a member subject to the CRA, received a CRA rating less than satisfactory at the end of a probationary period extending until its appropriate federal banking agency completes its next CRA examination of the member and issues a rating; or (iv) failed to provide satisfactory evidence of its first-time homebuyer performance as required under Part 944 before the end of the one-year probationary period specified in that part. A FHLBank member subject to such restriction is ineligible to participate in a CICA program, except for applications and funding approved before the date the restriction is imposed.

In 2005, the Finance Board anticipates that a proposal to amend to Part 944 of its regulations will be considered. A revision of Part 944 could strengthen FHLBank member community support programs by establishing more objective criteria for evaluating member compliance with CRA performance standards and first-time homebuyer requirements. Amendments to devolve certain aspects of program administration to the FHLBanks may also be considered.

In 2005, the Finance Board will complete its review of the community support statements of roughly half of FHLBank members. It will restrict FHLBank member access to long-term advances in the event of failure to adhere to the requirements of Part 944.

Annual Performance Goal 2.2d:

Carry Out Statutory Duty to Appoint Public Interest Directors, Including
Community Interest Directors, to
the Board of Directors of Each Federal Home Loan Bank

Annual Performance Measure 2.2dd:

Appoint Public Interest Directors, Including Community Interest Directors, to the
Board of Directors of Each Federal Home Loan Bank Each Year Each Year

Means and Strategies

Section 7(a) of the FHLBank Act specifies that the board of directors of each FHLBank be comprised, generally, of eight directors elected by the institutions members and six directors appointed by the Finance Board. At least two of the directors of each FHLBank appointed by the Finance Board are required to be chosen from organizations with more than a two-year history of representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections. The agency appoints or reappoints qualified public interest directors, including community interest directors, each calendar year, to fill vacancies occurring on the board of directors of each FHLBank. It is anticipated that the names of potential candidates for appointment or reappointment for vacancies occurring at the end of 2004 will be transmitted to the Board of Directors of the agency by year-end 2004.

STRATEGIC GOAL 3:

The Federal Housing Finance Board's Supervisory, Managerial, and Legal Resources Support Effective, Efficient, and Responsive Bank Supervision and Regulation and Housing Mission Oversight

⇒ **Strategic Objective 3.1:** ⇐
The Federal Housing Finance Board Takes Appropriate and Timely Regulatory and Advisory Actions

Annual Performance Goal 3.1a:

Review, Revise, and Supplement Federal Housing Finance Board Regulations to Ensure Relevance and Transparency and Issue Results-Oriented Supervisory Guidance

Annual Performance Measure 3.1aa:

Conduct Review of Federal Housing Finance Board Regulations and Revise and Supplement These Where Appropriate

Means and Strategies

In 2005, the Finance Board will continue to review its regulations to ensure the consistency of these with the agency's risk-focused regulatory and supervisory program and priorities. Such review also ensures that the regulations provide specific guidance while remaining sufficiently flexible to allow the Finance Board to adapt in response to changing conditions and revise or eliminate provisions that are no longer relevant or effective, do not achieve their intended purpose, are unreasonably burdensome, or are complex or ambiguous. The agency has also continued to identify and adopt, both in its review and revision of its regulations and otherwise, effective practices in regulatory supervision, and work with other financial institution regulators to identify such practices. Significant rule-making initiatives anticipated to be undertaken by the agency in 2005 are set forth below.

(i) Amendments to Parts 900, 932, and 955 of the Finance Board's Regulations—FHLBank AMA.

Finance Board staff is preparing amendments to a proposed rule that would amend Parts 900, 932, and 955 of its regulations principally to place greater responsibility with each FHLBank to manage its AMA program, subject to ongoing supervision and review by the agency. A previous version of the proposed amendments was withdrawn by the Finance Board on September 17, 2003.

(ii) Amendments to Part 951 of the Finance Board's Regulations—FHLBank AHP.

Finance Board staff anticipates that the agency could propose amendments to Part 951 of its regulation to place greater responsibility with each FHLBank to manage its AHP program, subject to ongoing supervision and review by the agency.

(iii) Amendments to the Finance Board's Regulations—Data Quality and Timeliness Regulation.

Finance Board staff is anticipates that the agency could adopt propose amendments to its regulations establishing data reporting standards applicable to the FHLBanks and addressing enforcement authority to ensure timely, accurate, and complete submissions of data from the FHLBanks.

(iv) Amendments to Part 952 of the Finance Board's Regulations---FHLBank CICA Programs.

Finance Board staff anticipates that the agency could propose amendments to Part 952 of its regulations making technical corrections and clarifying the Part's provisions, such as to enhance the utility of FHLBank community lending plans adopted under Part 944 of the agency's regulations.

(v) Amendments to Part 944 of the Finance Board's Regulations---Community Support Requirements.

Finance Board staff anticipates that the agency could propose amendments to Part 944 of its regulations to strengthen FHLBank member community support programs. The amendments could establish more objective criteria for evaluating member compliance with CRA performance standards and first-time homebuyer requirements. The amendments may also devolve certain aspects of program administration to the FHLBanks.

(vi) Amendments to Part 956 of the Finance Board's Regulations---FHLBank Investments.

Finance Board staff anticipates that the agency could propose amendments to Part 956 of its regulations that would supersede, in its entirety, the Financial Management Policy For the Federal Home Loan Bank System approved by the Finance Board in July 1996 and as since amended, as well as for other purposes.

<p style="text-align: center;"><u>Annual Performance Measure 3.1aaa:</u> Issue Results-Oriented Supervisory Guidance</p>

Means and Strategies

In 2005, the Finance Board will continue to develop and issue anticipatory, results-oriented supervisory guidance to the FHLBanks. Timely guidance will be provided in response to the evolving activities and operations of the FHLBanks, developments in the financial markets, and recently identified supervisory issues and best practices. In this connection, the agency will continue to identify and incorporate effective practices in regulatory supervision into its supervisory guidance and is working with other financial institution regulators to identify such practices. In 2005, the Finance Board anticipates that it will develop and issue supervisory guidance in the areas of FHLBank investment portfolio accounting, recordkeeping, and issues related to the registration by each FHLBank of a class of equity securities with the SEC under Section 12(g) of the 1934 Act required by Part 998 of the Finance Board's regulations.

Annual Performance Goal 3.1b:

Review and Act Upon New Business Activity Notifications by Federal Home Loan Banks Promptly and Comprehensively

Annual Performance Measure 3.1bb:

Respond to New Business Activity Notifications by Federal Home Loan Banks within Sixty Days of Receipt

Means and Strategies

Pursuant to Part 980, of the Finance Board's regulations, an FHLBank intending to engage in a "new business activity" must file a prior notice of its intent to do so with the Finance Board. Part 980 provides that within sixty days after receipt of such notice, the agency may issue a response to the FHLBank setting forth its disposition of the notice.

In its review of a new business notice submitted by an FHLBank, the Finance Board will assess the legal permissibility of the proposed activity, the risks attending it, and the ability of the FHLBank to manage those risks. If the activity is deemed appropriate for the FHLBank, the agency will approve the activity with such conditions as may be appropriate and will endeavor to transmit an appropriate notification to the FHLBank of its action within sixty days of the agency's receipt of the institution's new business activity notice. Alternatively, the agency may issue a notice or provide other communication to the FHLBank disapproving the activity, instructing it not to commence the activity pending further agency consideration, declaring an intent to examine it, requesting additional information, establishing agency conditions to approval of the activity, or containing other instructions or information deemed appropriate by the agency, within that timeframe. Subsequent assessments of a new business activity are often conducted by the Finance Board as part of future on-site examinations, and the

agency retains authority to request additional information or impose additional conditions upon the conduct of such activity at any time.

The Finance Board will review any new business activity notice received by it in 2005 pursuant to Part 980 of the agency's regulations.

 **Strategic Objective 3.2:** 
The Federal Housing Finance Board Makes Prudent Resource Management Allocations in Order to Fulfill Its Mission Effectively and Efficiently

Annual Performance Goal 3.2a:

Recruit, Retain, and Develop High-Achieving Professional Staff

Annual Performance Measure 3.2aa:

Recruit Additional Examiner, Economist, Accountant, Specialist, Analyst, and Other Professional Staff

Means and Strategies

In view of the increasing size and complexity of the FHLBanks, continued successful mission fulfillment by the Finance Board requires continuing augmentation of its staff with high-achieving professionals in various disciplines and the maintenance and support of a highly qualified, skilled, and diverse workforce. The means and strategies to be employed by the agency in 2005 in the development, maintenance, and support of its workforce are described below.

Human Resources. The recruitment of qualified examiners, economists, accountants, mortgage, risk, financial, and systems specialists and analysts is deemed of particular importance by the Finance Board and will continue to receive priority in 2005. To achieve this goal and promote diversity in the workforce, the agency will continue to use a combination of federal and private advertising targeted to the financial services industry, as well as outreach to minorities and to persons with disabilities, to ensure that a highly qualified and diverse group of applicants is solicited, evaluated, and selected. A variety of training options will continue to be offered to encourage development of staff skills and abilities in support of the mission of the agency. To encourage staff development, the Finance Board has instituted a recognition program to reward superior achievement. The development of a more effective and responsive EEO program is also underway.

The Finance Board will continue to enhance its compensation and benefits program by adding dental and vision plans. The agency will also evaluate current benefits to ensure that the goal of retaining diverse, high-achieving professionals is maintained.

Information and Systems Technology. To increase the efficiency and effectiveness of the Finance Board's staff, agency senior management will continue to implement measures technologically enhancing the work environment in accordance with the

agency's information technology strategic plan covering 2004 through 2009 ("IT Strategic Plan"). These are described below.

In 2005, the Finance Board will continue to enhance the agency's data and information systems, including the implementation of a comprehensive set of procedures for application development. These efforts will also focus on the continuation of a 2004 initiative to develop an enterprise data repository. The enterprise data repository project addresses the need to centralize, standardize, and link disparate agency data collection and management processes so as to permit the retrieval, manipulation, and analysis of enterprise-wide data outside of any particular agency system. In 2005, the Finance Board expects to select a contractor to undertake the project. The Finance Board also intends to initiate the development of staff expertise necessary throughout the agency in data query, manipulation, and visualization to fully exploit the anticipated benefits of the enterprise data repository when operational.

Under the umbrella of the enterprise data repository project, efforts will continue in 2005 to re-specify and rebuild AHP data assets and restructure AMA data. In addition, work will begin to re-specify the Finance Board Call Report System.

The Finance Board awarded a contract in 2004 for the development and implementation of an enterprise-wide risk management system to permit calculation and monitoring of the market risk exposures of the FHLBanks in support of the agency's examination process. This is a two-phased agreement with the first phase consisting of a needs assessment and the preparation of a detailed project plan. This phase was commenced in 2004. The second phase, projected for 2006, will consist of the entry into a software licensing agreement providing for the installation, training, and technical support needed for implementation. During 2005, the Finance Board will explore strategies to ensure that the enterprise-wide risk management system is configured and implemented in a manner most responsive to the agency's needs as well as to ensure the availability of consistent, uniform, and valid data from the FHLBanks that is necessary to the successful functioning of the enterprise-wide risk management system.

In 2004, the Finance Board completed its development of an information security program ("Information Security Program") to support and enforce its information security policy as well as a computer security incident response capability program and guide. This program includes a framework of policies and operating procedures compliant with OMB Circular A-130 and the Federal Information Security Management Act ("FISMA"), including security plans for general support systems and major applications, systems risk assessments, systems certification, systems accreditation, computer security incident response capability, and awareness and training. Many of these attributes are currently in place. In addition to these information security components, FISMA requires that agencies demonstrate that information security is integrated into an agency's capital planning process. The agency's information security program addresses this requirement by building information security planning into the agency's existing capital and review process. In 2005, the Finance Board will further

enhance its information security practices on the basis of initiatives outlined in the Information Security Program and the results of internal FISMA audits.

In 2005, the Finance Board will conduct a pilot document scanning and imaging project to enhance record management efforts. The results of the pilot will be used as a model for the initiation of document scanning and imaging in the agency's supervisory activities. The agency will also implement new external and internal web sites. These enhanced web sites will allow users, internally and externally, to locate information more efficiently.

A key goal of the Finance Board in 2005 is the development and implementation of a financial management solution for the agency. A comprehensive cost-benefit analysis will first be completed for various options and will include a business process review. The development and implementation of a financial management solution will allow the agency to become more efficient in its financial management activities.

Physical Work Environment. The Finance Board currently occupies the entire building at 1777 F Street, N.W., which encompasses approximately 57,000 rentable square feet of office space. The current lease expires on December 24, 2006. At present, the agency is at full capacity in this building and there is little, if any, available space for staff expansion. The agency has signed a letter of intent to lease a new headquarters facility in calendar year 2005 that is compliant with the Americans with Disabilities Act and other life safety standards.

Resource Allocation. The continuing availability of financial resources is critical to the ability of Finance Board staff to realize the objectives of the Strategic Plan and fulfill the agency's mission. Enhanced budget and program integration currently underway at the agency will assure that resource allocations are aligned with agency mission and Strategic Plan.

In 2002, the Finance Board undertook a significant internal reorganization for the purpose of targeting a greater portion of its financial resources to its program of supervision. In support of that effort, the agency in 2005 will allocate approximately 83 percent of its budget, or over \$20.2 million, to its program of supervision.

To fulfill its stewardship responsibilities, the Finance Board employs sound fiscal management techniques and continually seeks ways to implement more efficient and cost-effective business processes in order to reduce its ongoing operational costs. To that end, FHFB will redesign its budget process to make it more efficient. In 2005, the Finance Board will file its first Performance and Accountability Report, as well as continue to submit unaudited quarterly financial statements, to the U.S Office of Management and Budget pursuant to the Accountability of Tax Dollars Act of 2002.

Annual Performance Goal 3.2b:

Maintain Appropriate Contingency Planning and Business Continuity Plan

Annual Performance Measure 3.2bb:

Conduct Annual Review and Update of Finance Board Business Continuity Plan

Means and Strategies

Continuity of operations has been a major focus of the Finance Board in response to the frequency of U.S. Department of Homeland Security terror alerts at the “Orange” level in Washington, D.C. In 2005, the Finance Board will continue to take measures to ensure that facility management actions are addressed for continuity of operations and emergency response plans, testing these plans and ensuring that they are current. The Finance Board will continue to enhance off-site measures at its Tysons Corner, Virginia emergency operations center that has direct connectivity to all agency systems.

APPENDIX

Performance Results

Key External Factors

Program Financial Support

Strategic Planning Process

Program Evaluations

Verification and Validation

Performance Results

The success of the Finance Board in achieving its annual performance goals and “like” performance goals for fiscal years 2004 (through August 31, 2004), 2003, 2002, and 2001, is set forth below, as well the agency’s anticipated success in achieving such goals in fiscal year 2005. Where no like performance goal existed in a fiscal year, an annual performance goal is designated “New Performance Goal.”

<p style="text-align: center;"><u>Annual Performance Goal 1.1a:</u> Maintain Effective Risk-Based Supervisory Program</p> <p style="text-align: center;"><u>Annual Performance Measure 1.1aa:</u> Complete Annual Safety and Soundness Examinations and Conduct Related Monitoring, Testing, and Training</p>

2005 Projected Performance—Complete annual safety and soundness examinations of the twelve FHLBanks; provide enhanced examiner guidance and training and conduct off-site monitoring and analysis of their condition; annual testing of their interest rate sensitivity; and periodic testing of their market risk models.

2004 Performance through August 31—Examinations of nine FHLBanks completed or in process to date; examinations of remaining three will be completed by calendar year-end. Revision of examination manual continuing; development of bank-wide examination ratings framework commenced; issuance of Examiner Guidance Bulletins initiated; and provision of examiner training opportunities continued. Market risk measurement and modeling support continuing to be provided in connection with examinations; market risk models of FHLBanks seeking to implement their capital structure plans continuing to be reviewed; contract entered into with a vendor to develop and implement an enterprise-wide risk management system; and development commenced of standardized market risk data collection system. FHLBank analyst program strengthened through retention of analysts; monthly monitoring of FHLBank condition and regulatory compliance, as well as market developments, continuing to be performed; and agency data collection and monitoring capabilities, including development of enterprise data repository, continuing to be enhanced.

2003 Performance—Completed examinations of twelve FHLBanks during calendar year. Commenced revision of examination manual and provided examiner guidance and training opportunities. Provided market risk measurement and support in connection with

examinations and reviewed market risk models of FHLBanks seeking to implement their capital structure plans. Performed monthly monitoring of FHLBank condition and performance and regulatory compliance, as well as market developments, and enhanced agency data collection and monitoring capabilities.

2002 Performance—Completed examinations of twelve FHLBanks during calendar year. Provided examiner guidance and training opportunities. Provided market risk measurement and support in connection with examinations and reviewed market risk models of FHLBanks seeking to implement their capital structure plans. Performed monthly monitoring of FHLBank condition and performance and regulatory compliance, as well as market developments, and enhanced agency data collection and monitoring capabilities.

2001 Performance—Completed examinations of twelve FHLBanks during calendar year. Provided examiner guidance and training opportunities. Continued to revise and update examination manual. Provided market risk measurement and support in connection with examinations. Performed monthly monitoring of FHLBank condition and performance and regulatory compliance, as well as market developments.

2000 Performance—Completed examinations of twelve FHLBanks during calendar year. Provided examiner guidance and training opportunities. Revised and updated examination manual. Provided market risk measurement and support in connection with examinations. Performed monthly monitoring of FHLBank condition and performance and regulatory compliance, as well as market developments.

Annual Performance Goal 1.1b:

Respond to Identified Supervisory Concerns

Annual Performance Measure 1.1bb:

Assess Effectiveness of Corrective Actions

2005 Projected Performance—Assess effectiveness of required corrective actions at annual on-site safety and soundness examinations and at reviews conducted quarterly or at more frequent intervals.

2004 Performance through August 31—Assessing effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2003 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2002 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2001 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2000 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

Annual Performance Goal 1.2a:
Satisfaction of Applicable Capital Requirements

Annual Performance Measure 1.2aa:
Satisfaction of Applicable Capital Requirements and
Prudent Management of Capital and Earnings

2005 Projected Performance—Each FHLBank satisfies the capital requirements applicable to it and prudently manages its capital and earnings.

2004 Performance through August 31—Assessing compliance with applicable capital requirements, as well as management of capital and earnings, during annual examinations and off-site on a monthly basis.

2003 Performance—Assessed compliance with applicable capital requirements, as well as management of capital and earnings, during annual examinations and off-site on a monthly basis.

2002 Performance—Assessed compliance with applicable capital requirements during annual examinations and off-site on a monthly basis.

2001 Performance—Assessed compliance with capital requirements during annual examinations and off-site on a monthly basis.

2000 Performance—Assessed compliance with capital requirements during annual examinations and off-site on a monthly basis.

Annual Performance Goal 1.2b:
Capital Structure Plan Implementation

Annual Performance Measure 1.2bb:
Conduct Review of Proposed Market Risk or Cash-Flow Models and Risk Assessment
Procedures and Controls as well as Capital FHLBank Structure Plan Amendments

2005 Projected Performance—Conduct review of proposed FHLBank market risk or cash-flow models and risk assessment procedures and controls, and proposed FHLBank capital structure plan amendments.

2004 Performance through August 31—Conducting reviews of proposed market risk or cash-flow models, risk assessment procedures and controls, and capital structure plan amendments for FHLBanks.

2003 Performance—Conducted reviews of proposed market risk or cash flow models, risk assessment procedures and controls, and capital structure plan amendments for FHLBanks.

2002 Performance—Conducted reviews of proposed market risk or cash flow models, risk assessment procedures and controls, and capital structure plan amendments for FHLBanks.

2001 Performance—New performance goal beginning in 2002

2000 Performance—New performance goal beginning in 2002.

Annual Performance Goal 1.3a:

Assess System Cost of Funds and Monitor Consolidated Obligations and FHLBank Ratings

Annual Performance Measure 1.3aa:

Assess System Cost of Funds Semi-Annually

2005 Projected Performance—Conduct semi-annual assessment of System cost of funds.

2004 Performance through August 31—Assessment conducted once to date; second assessment expected to be conducted by calendar year-end 2004.

2003 Performance—New performance goal beginning in 2004.

2002 Performance—New performance goal beginning in 2004.

2001 Performance—New performance goal beginning in 2004.

2000 Performance—New performance goal beginning in 2004.

Annual Performance Measure 1.3aaa:

Monitor Consolidated Obligation and FHLBank Ratings

2005 Projected Performance—Monitor compliance by FHLBanks with Finance Board requirement of minimum ratings by NRSROs.

2004 Performance through August 31—Continuing to conduct periodic monitoring of ratings.

2003 Performance—Conducted periodic monitoring of ratings.

2002 Performance—Conducted periodic monitoring of ratings.

2001 Performance—Conducted periodic monitoring of ratings.

2000 Performance—Conducted periodic monitoring of ratings.

Annual Performance Goal 1.3b:

Assess Compliance of Financial Reporting and Obligation Sales with Regulatory Requirements

Annual Performance Measure 1.3bb:

Conduct Review of Compliance of Financial Reporting with Regulatory Requirements

2005 Projected Performance—Conduct review of annual and quarterly System combined financial reports and financial reports issued by individual FHLBanks for compliance with the disclosure requirements of Finance Board regulations.

2004 Performance through August 31—All System- and FHLBank-issued financial reports reviewed to date.

2003 Performance—All System- and FHLBank-issued financial reports reviewed.

2002 Performance—All System- and FHLBank-issued financial reports reviewed.

2001 Performance—All System- and FHLBank-issued financial reports reviewed.

2000 Performance—All System- and FHLBank-issued financial reports reviewed.

Annual Performance Measure 1.3bbb:

Conduct Annual Examination of OF

2005 Projected Performance—Conduct annual on-site examination of OF in December 2004.

2004 Performance through August 31—Examination completed in December 2003.

2003 Performance—Examination completed.

2002 Performance—Examination completed.

2001 Performance—Examination completed.

2000 Performance—Examination completed.

Annual Performance Goal 2.1a:

Conduct Annual Review of FHLBank Advance Portfolios

Annual Performance Measure 2.1aa:

Complete Annual Review of FHLBank Advance Portfolios

2005 Projected Performance—Complete review of advance portfolio of each FHLBank as part of annual on-site safety and soundness examination.

2004 Performance through August 31—Advance portfolios continuing to be reviewed as part of annual examinations.

2003 Performance—Advance portfolios reviewed as part of annual examinations.

2002 Performance—Advance portfolios reviewed as part of annual examinations.

2001 Performance—Advance portfolios reviewed as part of annual examinations.

2000 Performance—Advance portfolios reviewed as part of annual examinations.

Annual Performance Goal 2.1b:

Conduct Annual Review of FHLBank AMA Portfolios

Annual Performance Measure 2.1bb:

Complete Annual Review of FHLBank AMA Portfolios

2005 Projected Performance—Complete review of AMA portfolio of each FHLBank as part of annual on-site safety and soundness examination.

2004 Performance through August 31—AMA portfolios continuing to be reviewed as part of annual examinations.

2003 Performance—AMA portfolios reviewed as part of annual examinations.

2002 Performance—AMA portfolios reviewed as part of annual examinations.

2001 Performance—AMA portfolios reviewed as part of annual and pre-implementation examinations.

2000 Performance-- AMA portfolios reviewed in special examination.

Annual Performance Goal 2.2a:

Conduct Annual Examinations of Affordable Housing and Community Investment Programs

Annual Performance Measure 2.2aa:

Complete Annual Examinations of Affordable Housing and Community Investment Programs

2005 Projected Performance—Complete annual on-site examination of each FHLBank.

2004 Performance through August 31—Full-scale examinations of six FHLBanks completed or in process to date; more limited scope examinations of remaining six expected to be completed by calendar year-end 2004.

2003 Performance—Completed examinations of twelve FHLBanks during calendar year.

2002 Performance—Completed examinations of twelve FHLBanks during calendar year.

2001 Performance—Completed examinations of eleven FHLBanks during calendar year.

2000 Performance—New performance goal beginning in 2001.

Annual Performance Goal 2.2b:

Respond to Identified Agency Concerns.

Annual Performance Measure 2.2bb:

Assess Effectiveness of Supervisory Actions.

2005 Projected Performance—Assess effectiveness of required corrective actions at on-site examination or at periodic follow-up reviews.

2004 Performance through August 31—Assessing effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2003 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2002 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2001 Performance—Assessed effectiveness of required corrective actions during examinations and periodic follow-up discussions.

2000 Performance—New performance goal beginning in 2001.

Annual Performance Goal 2.2c:

Conduct Annual Review of FHLBank Community Lending Plans and Biennial Review of FHLBank Member Community Support Statements

Annual Performance Measure 2.2cc:

Complete Annual Review of FHLBank Community Lending Plans and Biennial Review of FHLBank Member Community Support Statements

2005 Projected Performance—Complete review of community lending plans of each FHLBank and biennial review of member community support statement.

2004 Performance through August 31—Completed review of community lending plans of twelve FHLBanks; anticipating completion of review of community support statements of 2,597 FHLBank members by calendar year-end.

2003 Performance—Completed review of community lending plans of twelve FHLBanks; completed review of community support statements of 4,497 FHLBank members by calendar year-end.

2002 Performance—Completed review of community lending plans of twelve FHLBanks; completed review of community support statements of 2,913 FHLBanks members by calendar year-end.

2001 Performance—Completed review of community lending plans of twelve FHLBanks, completed review of community support statements of 3,225 FHLBanks by calendar year-end.

2000 Performance—Completed review of community lending plans of twelve FHLBanks, completed review of community support statements of 2,515 FHLBanks by calendar year-end.

Annual Performance Goal 2.2d:

Carry Out Statutory Duty to Appoint Public Interest Directors, Including Community Interest Directors, to FHLBank Boards of Directors

Annual Performance Measure 2.2dd:

Appoint Public Interest Directors, Including Community Interest Directors, to FHLBank Boards of Directors Each Year

2005 Projected Performance—Appoint qualified public interest directors, including community interest directors, to the board of directors of each FHLBank each year.

2004 Performance through August 31—Appointments and reappointments made for calendar year 2004.

2003 Performance—Appointments and reappointments made for calendar year 2003.

2002 Performance—Appointments and reappointments made for calendar year 2002.

2001 Performance—Appointments and reappointments made for calendar year 2001.

2000 Performance—Appointments and reappointments made for calendar year 2000.

Annual Performance Goal 3.1a:

Review, Revise, and Supplement Finance Board Regulations and Issue Results-Oriented Supervisory Guidance

Annual Performance Measure 3.1aa:

Review Finance Board Regulations and Revise These Where Appropriate

2005 Projected Performance—Continue review of FHLBank regulations and revise and supplement these where appropriate.

2004 Performance through August 31—Review of Finance Board regulations continued; amendments to Parts 900 and 998 (registration of FHLBank stock with SEC) adopted; amendments to Parts 919 and 913 (Privacy Act and Freedom of Information) adopted; amendments to Parts 900, 932, and 955 (FHLBank AMA); amendments to Part 951 (FHLBank AHP) in preparation; and data quality and timeliness regulation in preparation.

2003 Performance—Review of Finance Board regulations continued; amendments to Parts 900, 932, and 955 (FHLBank AMA) published for public comment and withdrawn; proposed Part 998 (registration of FHLBank equity securities with SEC) published for public comment; interim amendments to Parts 910 and 913 (Privacy Act and Freedom of Information Act) adopted; amendments to Part 906 (conduct of Monthly Survey of Rates and Terms of Conventional Mortgages) adopted; amendments to Parts 900 and 905 (Finance Board organization and functions) adopted; and proposed amendments to Part 915 (FHLBank board of directors composition) published for public comment.

2002 Performance—Review of Finance Board regulations commenced; amendments to Parts 907 and 908 (Finance Board rules of practice and procedure) adopted; amendments to Section 932.9 (FHLBank unsecured credit limits) adopted; technical amendments to Parts 900, 931, 932, and 933 (FHLBank capital standards and capital structure plans) adopted; amendments to Part 918 (FHLBank board of directors meetings) adopted; amendments to Part 951 (FHLBank AHP set-aside) adopted; amendments to Part 951 (FHLBank additional AHP contributions) adopted; amendments to Parts 900 and 952 (FHLBank CICA) adopted; technical amendments to various parts adopted; amendments to Part 985 (OF board of directors meetings) adopted; amendments to Part 966 (System consolidated obligations) adopted; and amendments to Part 951 (FHLBank AHP) adopted.

2001 Performance— Proposed amendments to Parts 907 and 908 (Finance Board rules of practice and procedure) published for public comment; amendments to Parts 900, 930, 931, 932, and 933 (FHLBank capital standards and capital structure plans) adopted; proposed amendments to Section 932.9 (FHLBank unsecured credit limits) published for public comment; proposed technical amendments to Parts 900, 931, 932, and 933 (FHLBank capital standards and capital structure plans) published for public comment; interim amendments to Part 918 (FHLBank board of directors meetings) adopted; proposed amendments to Part 951 (FHLBank AHP set-aside) published for public comment; and proposed amendments to Parts 900 and 952 (FHLBank CICA) published for public comment.

2000 Performance—Amendments to Part 910 (System consolidated obligations) adopted; amendments to Parts 900, 905, 965, 966, 969, 985, and 989 (System consolidated obligations) adopted; amendments to amendments to Part 900 and 940 (FHLBank financial management and mission achievement) withdrawn; interim amendments to Part 925 (FHLBank membership requirements) adopted; interim amendments to Part 950 (FHLBank advance collateral) adopted; amendments to Parts 900, 940, 950, 955, 956, and 966 (FHLBank AMA, core mission activities, investments, and advances) adopted; proposed amendments to Parts 900, 930, 931, 932, and 933 (FHLBank capital standards and capital structure plans) published for public comment; technical amendments to various Parts adopted; and amendments to Part 980 (FHLBank new business activities) adopted; interim amendments to Parts 932, 934, and 935 (devolution of FHLBank corporate governance responsibilities) adopted; and amendments to Parts 900, 917, and 940 (FHLBank board of directors and senior management powers and responsibilities) adopted.

<p style="text-align: center;"><u>Annual Performance Measure 3.1aaa:</u> Issue Results-Oriented Supervisory Guidance</p>

2005 Projected Performance—Issue results-oriented supervisory guidance.

2004 Performance through August 31—Supervisory guidance issued addressing the following issues: risk assessment, management, and modeling; corporate governance; financial disclosure and reporting; examination findings categories; capital management and retained earnings; liability exposure resulting from state predatory lending laws; approval of changes to internal risk models; and the rating of small loan pools.

2003 Performance—Supervisory guidance issued addressing the following issues: accelerated financial reporting; business continuation contingency planning; expanded financial disclosures; capital structure plan amendments; annual risk assessments; NRSRO ratings methodologies and state predatory lending laws; internal market risk model validation; capital management and retained earnings; calculation of duration of equity and limits in low interest rate environments and related reporting requirements; Value-at-Risk modeling; revisions to safety and soundness examination findings categories; credit risk exposure to supplemental mortgage insurance providers; financial reporting and disclosure; AHP subsidy and recapture and retention agreement and

reasonable collection effort requirements; qualification of certain government securities as collateral under the FHLBank Act; application of interim capital requirements; and classification of MAST Bonds.

2002 Performance—Supervisory guidance issued addressing the following issues: interest rate modeling; strategic plan reporting; disaster recovery planning; auditor independence and risk assessment; quarterly liquidity certification; unsecured credit reporting requirements; credit watch for unsecured credit; sponsor leasehold interests in AHP rental project buildings and underlying land, status of certain loans within AMA programs; use of mortgage pool insurance in credit enhancement in AMA programs; electronic distribution of combined financial reports; and obligations of state housing finance agencies and unsecured credit limitations.

2001 Performance—Supervisory guidance issued addressing the following issues: data collection and reporting requirements; securing AMA enhancements; short-term unsecured counterparty ratings and Finance Board Financial Management Policy; conflicts of interest; credit underwriting and regulatory compliance and housing associates; AMA data submissions; asset review and classification; vigilance in risk monitoring; Finance Board staffing changes; AMA programs assets held for a valid business purpose; OF audit committee and combined financial statements; elections of FHLBank directors; FHLBank membership eligibility of privately insured credit unions; Finance Board Financial Management Policy applicability to equity option transactions, short-cut method hedge accounting; valid economic hedges and securities carried at fair value; independent auditor review of quarterly financial information; mortgage loan participation interests as advance collateral; mobile home park project treatments under Part 951 of the Finance Board’s regulations; Refinancing Corporation financial statement presentation; bank small business grant programs under Part 952 of the Finance Board’s regulations; and acceptance of certain mutual funds and collateral.

2000 Performance—Supervisory guidance issued addressing the following issues: use of IDC ratings in extending unsecured credit; Finance Board interest rate risk model; unmet credit need performance; putable advance disclosures; revisions to examinations findings categories; new leverage limit reporting; quarterly liquidity certification requirement; capital stock sales; targeted mortgage purchase program; AHP lease-purchase program project treatment; standby bond purchase agreements with housing finance agencies; non-mortgage investment ratio determination using an average monthly basis; multifamily mortgage loan purchase; application of five-year waiting period to institutions seeking to reapply for FHLBank membership; equity investment in Brownfields site redevelopment project; statutory annual director compensation cap applicability in 1999; audit committee disclosures; and FHLBank director elections.

Annual Performance Goal 3.1b:

Review and Act Upon New Business Activity Notifications.

Annual Performance Measure 3.1bb:

Respond to New Business Activity Notifications within Sixty Days of Receipt.

2005 Projected Performance—Respond to new business activity notifications by FHLBanks within sixty days of receipt.

2004 Performance through August 31— Two new business activity notices responded to, within sixty days of receipt.

2003 Performance—Five new business activity notices responded to, within sixty days of receipt.

2002 Performance—Twenty-one new business activity notices responded to, within sixty days of receipt.

2001 Performance—Twenty-six new business activity notices responded to, within sixty days of receipt.

2000 Performance---Twelve new business activity notices responded to, within sixty days of receipt, beginning from the effective date of Part 980 of the Finance Board’s regulations to fiscal year-end.

<p style="text-align: center;"><u>Annual Performance Goal 3.2a:</u> Recruit, Retain and Develop Professional Staff</p> <p style="text-align: center;"><u>Annual Performance Measure 3.2aa:</u> Recruit Additional Professional Staff</p>
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2005 Projected Performance—Recruit additional examiner, economist, accountant, analyst, and other professional staff.

2004 Performance through August 31—Recruitment of additional examiners, economists, accountants and mortgage, risk, financial, and policy specialists and analysts continues.

2003 Performance—Mortgage analyst and additional examiners recruited.

2002 Performance—Additional examiners recruited.

2001 Performance—Mortgage analyst and additional examiners recruited.

2000 Performance—Mortgage analyst and additional examiners recruited.

<p style="text-align: center;"><u>Annual Performance Goal 3.2b:</u> Maintain Appropriate Contingency Planning and Business Continuity Plan</p> <p style="text-align: center;"><u>Annual Performance Measure 3.2bb:</u> Conduct Annual Review and Update of Finance Board Business Continuity Plan</p>

2005 Projected Performance—Conduct annual review and update of Finance Board business continuity plan.

2004 Performance through August 31—Business continuity plan developed, reviewed, and updated.

2003 Performance—Business continuity plan reviewed and updated.

2002 Performance—Business continuity plan reviewed and updated.

2001 Performance—New performance goal beginning in 2002.

2000 Performance—New performance goal beginning in 2002.

Key External Factors

As is the case with all financial institution regulators, the Finance Board is affected by macroeconomic conditions. The Finance Board cannot control such factors as the capital markets, interest rates, regional or national recessions or economic expansions, housing prices, financial industry consolidation and restructuring, or banking policies formulated beyond its own jurisdiction.

The ability of the FHLBanks to provide funds to their members by issuing consolidated obligations can be affected by such factors as adverse movements in the international capital markets (such as a major foreign crisis), developments affecting the other government-sponsored enterprises, political factors, and unforeseen events. The FHLBanks' consolidated obligations must compete against such alternative investments as securities issued by the U.S. Department of the Treasury, other government-sponsored enterprises, and foreign or domestic corporate issuers.

The FHLBanks operate in an environment characterized by changing financial markets. With the advent of the revolutionary changes in information technology, financial markets move more rapidly than ever before. In recent years, the role of the FHLBanks as financial intermediaries has changed considerably and has grown in complexity as innovative financial products and risk management techniques are used to improve the management and control of risks. Moreover, consolidation of the financial services industry has presented challenges to the System as it has realigned the System's membership base.

In a competitive financial services environment where highly skilled personnel are in great demand, a key challenge before the Finance Board will be to retain a highly competent work force and, as needs dictate, to attract additional highly qualified bank examination and supervision staff with the requisite financial and technological skills to model, monitor, and assess the risks undertaken by the FHLBanks. The Finance Board will also need to evaluate on an ongoing basis the reliability of its own and the

FHLBanks' financial models to assure that they adequately measure the FHLBanks' market risk.

Program Financial Support

In support of the Finance Board's efforts to strengthen its program of supervision, the agency will allocate approximately eighty-three percent of its budget, or over \$20.2 million, to its program of supervision.

Strategic Planning Process

The Finance Board and its constituent offices prepare strategic and other plans setting out their goals and objectives, together with means and strategies for their achievement, to guide their activities over discrete time periods. These are described below, together with the processes through which they are created.

Strategic Plan

Using as its point of departure the mission, vision and values of the Finance Board, the Strategic Plan articulates strategic goals and objectives, together with means and strategies for their achievement, over a six-year period. As such, the Strategic Plan provides a basis for the development and implementation of annual performance goals directing the deployment of the Finance Board's staff and resources on a yearly basis. The Strategic Plan, covering years 2003 through 2008, identifies three strategic goals that support the agency's mission, specifically, a safety and soundness goal, a mission goal, and a goal stressing the importance of timely and appropriate supervisory actions through prudent resource allocation. In turn, the three strategic goals are given more concrete expression through the Strategic Plan's establishment of seven strategic objectives which form the framework for the achievement of the agency's mission.

The Strategic Plan was developed by a cross-agency working group comprised of representatives of the Finance Board's Offices of Supervision, Management, and the General Counsel, as well as an assistant to a member of the agency's board of directors. Thereafter, it was approved by a steering committee consisting of the directors of the Offices of Supervision, Management, and the General Counsel and then by the agency's board of directors.

Annual Performance Plan

The annual performance plan represents the yearly means by which the Finance Board implements the strategic goals and objectives laid out in the Strategic Plan. In addition to providing the blueprint for the annual implementation of the Strategic Plan, it establishes measures against which agency success in achieving its annual performance goals may be

judged. Specifically, the annual performance plan establishes annual target levels of performance with which the agency's resources will be aligned, means and strategies for achieving these, and performance measures against which actual performance can be assessed.

The annual performance plan for 2005 was developed and approved in the same manner as the Strategic Plan.

Information and Technology Strategic Plan for 2004 through 2009

The IT Strategic Plan details the Finance Board's goals in providing effective technology in support of the agency's major program areas. It identifies four major informational initiatives in support of the agency's strategic goals and objectives including the: (i) continued operation of the agency's technology investment committee ("Technology Investment Committee") to assure alignment of information technology with the agency's strategic business goals; (ii) development and maintenance of an information technology infrastructure supportive of agency operations that anticipates future needs; (iii) design, development, and operation of application systems that are supportive of agency operations and provide management information; (iv) and development and maintenance of an effective information security program complying with FISMA.

The IT Strategic Plan was developed by the Finance Board's Chief Information Officer and his staff and was approved by the Technology Investment Committee, which consists of the Chief Information Officer and the directors of the Offices of Supervision and Management.

Office of the Inspector General Strategic Plan for 2004 through 2009, including Annual Audit Plan for 2004 through 2005.

The Finance Board's Office of the Inspector General ("OIG") develops and adopts its own strategic plan governing its activities and operations ("OIG Strategic Plan"). The OIG Strategic Plan identifies four overarching goals that form the basis for performance objectives, strategies, and measures also articulated in the Plan. These include the facilitation of agency mission and strategic goals through the conduct of audit activities designed to prevent and detect fraud, waste and abuse in agency programs, the conduct of investigations of possible criminal violations and administrative abuses involving agency employees or programs, the facilitation of the agency's development of effective operations, policies, and procedures that address its legal obligations, and the education of agency staff, Congress and others regarding the duties, responsibilities, and operations of the OIG.

The OIG Strategic Plan was developed by the OIG through a consultative process in which the Inspector General and his staff considered statutory audit requirements, agency goals and objectives as set forth in the Strategic Plan and other factors in determining audit priorities for the period covered by the Plan.

Other Plans

The Offices of Supervision and Management of the Finance Board conduct annual performance planning through consultative processes for each fiscal year to determine their priorities for that year. The results of these processes are memorialized in written planning documents.

Program Evaluations

The Finance Board monitors its progress in implementing its goals regularly through internal tracking and reporting mechanisms and internal staff and management meetings at which the status of agency activities is discussed. The desirability and practicability of existing goals and of current means and strategies for their achievement is assessed through these means, as well as through the annual budgeting process in which the effectiveness of current agency programs and activities is considered in making allocations of agency resources.

Other evaluative methods are also employed by the Finance Board in assessing the efficacy of its programs and activities. As a means of evaluating and improving its annual on-site safety and soundness examinations of the FHLBanks and its supervisory program generally, the Finance Board distributes an examination survey to the president of each FHLBank examined at the conclusion of the examination. These surveys are considered part of the supervisory program and are designed to elicit comment on the quality of the examination. The effectiveness, clarity and adaptability of the Finance Board's regulations and their consistency with current agency priorities and objectives is being assessed through the agency's ongoing review of these to identify provisions that should be amended or eliminated because they are no longer relevant or effective to achieve their intended purpose, are unreasonably burdensome, or are complex or ambiguous. The effectiveness and management of FHLBank AHP programs and of the agency's regulations in establishing parameters for these were assessed in a horizontal review of such programs conducted in 2003 and 2004; the agency anticipates that a report setting forth its assessment of these issues will be issued by the end calendar year 2004. The quality and effectiveness of agency programs and operations are also assessed in audits conducted by the OIG and the U.S. General Accounting Office.

The results of program evaluations conducted by the Finance Board and others will be considered by the agency in its preparation of annual performance and accountability reports as well as future annual performance budgets and strategic plans.

Verification and Validation

The Finance Board internally tracks its progress in achieving its annual goals and longer term objectives through periodic management reporting mechanisms of various types. The agency deems the information produced by these mechanisms to be accurate.

The Finance Board maintains a financial accounting and budget system that tracks agency costs against budgeted resources for various agency functions. The agency prepares annual financial statements in accordance with generally accepted accounting principles. These are subject to annual audit by an independent accounting firm.

Through the Finance Board Call Report System, the Finance Board collects financial data of various types from the FHLBanks that it analyzes in connection with its supervisory activities. During the annual on-site safety and soundness examination performed of each FHLBank, the agency compares Call Report System-generated data with information generated by the institution's internal financial reporting systems to verify the consistency of reported information with Call Report System filing instructions.