

No. 97-65
Date: September 29, 1997

FEDERAL HOUSING FINANCE BOARD

Five Year Strategic Plan
1998 - 2002

WHEREAS, the Government Performance and Results Act of 1993 (5 U.S.C. 306) requires agencies to develop and prepare strategic plans and to submit such plans to the Office of Management and Budget and the Congress by September 30, 1997;

NOW, THEREFORE, BE IT RESOLVED, that the attached Five Year Strategic Plan for the Federal Housing Finance Board is hereby approved.

By the Board of Directors of the
Federal Housing Finance Board

A handwritten signature in black ink, appearing to read "B. A. Morrison". The signature is stylized with a large, sweeping initial "B" and a cursive "A" and "Morrison".

Bruce A. Morrison
Chairman

FEDERAL HOUSING



FINANCE BOARD

5 YEAR STRATEGIC PLAN

1998 - 2002



M I S S I O N

Ensure the safety and soundness of the
Federal Home Loan Banks, their
access to the capital markets, and the
accomplishment of their
congressionally defined housing
finance mission

THE FEDERAL HOUSING FINANCE BOARD

The Federal Housing Finance Board (Finance Board) was established as an independent agency in the Executive Branch by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989.

The Finance Board has supervisory authority and oversight responsibility for the twelve Federal Home Loan Banks (FHLBanks) and the Office of Finance. The Finance Board ensures the safety and soundness of the Bank System and housing finance mission, administers the Affordable Housing, Community Investment, and Community Support Programs and oversees the FHLBanks' financial performance and operations.

The Finance Board consists of a five-director board -- one of whom is the Secretary of Housing & Urban Development. The other four directors are appointed by the President and are subject to Senate confirmation. One of the directors is a "consumer/community" director. The current Finance Board directors are:

Chairman. Bruce A. Morrison (2/28/00)
Secretary Andrew M. Cuomo*
Lawrence U. Costiglio of New York (2/28/95)
J. Timothy O'Neill (2/28/97)
Board Director, vacant as of 11/22/93 (1999)

*Secretary Cuomo has designated Assistant Secretary for Housing - Federal Housing Commissioner, Nicolas P. Retsinas, to serve in his Board position.

The Finance Board directors are chosen from among people with extensive experience in housing finance or with a commitment to the provision of specialized housing credit. One director must be chosen from organizations representing consumer and community interests on banking services, credit needs, housing or consumer protection.

The Finance Board is supported by assessments from the twelve FHLBanks. The FHLBanks, in turn, finance their own operations by charging for credit products and services they provide to member institutions. No tax dollars or other appropriations are used to support the operations of the Finance Board or the FHLBank System.

September 1997

Federal Housing Finance Board Evaluation and Planning Process

The process of evaluating what needs to be accomplished over the next five years and planning the delivery of those accomplishments is one that has taken several avenues.

Over the past two years, the Federal Housing Finance Board (Finance Board) has engaged in intensive discussions, which have been both internal and external. Internally, the Finance Board Directors individually met with staff to develop a vision to guide the Finance Board in the achievement of its mission. Externally, the Finance Board sought and received comments from the FHLBank presidents and directors. The Finance Board used these meetings to find out how the FHLBanks, through their boards and management, viewed the efforts of the Finance Board and how they felt the Finance Board could better accomplish its mission.

The Board of Directors, individually, along with the managing director and staff, met with members of the FHLBank System beyond the industry directors through trade association meetings and other, more informal structures. Their input has been invaluable in developing this plan.

In addition, the Finance Board informally solicited opinion and ideas from the non-profit community, including the Housing Advisory Councils of the Federal Home Loan Banks and Washington-based representatives of affordable housing and neighborhood reinvestment interests.

The development of the strategic plan was advanced through meetings with senior managers and staff in general. The goals and objectives were derived from these meetings. The goals and objectives were an integral part of the budget planning process. Senior staff and the managing director were critical to the development of the performance measures, because they will be using them to create performance plans for their divisions and units. The Finance Board's Directors and assistants met to discuss the draft and to recommend changes for the final version.

Subsequent to the submission of the draft version of the strategic plan, the Office of Management and Budget gave direction and guidance to the staff of the Finance Board, as did members of the staff of the Senate Banking Committee and the House Banking Committee. Finance Board directors and staff met with the FHLBank presidents to hear their comments on the draft plan. Staff held a conference call with the chairs and vice-chairs of the FHLBanks' boards to receive their input on the draft plan. Many of the comments and corrections suggested by congressional staff, FHLBanks' management and board representatives were incorporated into the final strategic plan.

The staff of the Finance Board will continue to reach out to the FHLBanks, members of Congress and other interested parties as new issues arise and as information from the cost-benefit study becomes available late next spring.

The Board of Directors approved this plan on September 30, 1997.

GOAL I

Examine 12 FHLBanks, the Office of Finance and FICO Annually for Safety and Soundness Compliance. and Each FHLBank's Mission Performance

OBJECTIVE

Effective examination function

PERFORMANCE MEASURES

All FHLBanks, the Office of Finance, and FICO examined and exam 'reports delivered to the FHF Board of Directors. all 12 FHLBanks, FICO and the Office of Finance. (Annually)

Increase examiners and maintain examiner corps. (1998)

Examinations manual published and distributed to FHLBanks and others. (1998)

Prompt resolution of disputed examination findings pursuant to Finance Board procedures. (Ongoing)

STRATEGIES AND INITIATIVES

The Federal Housing Finance Board (Finance Board) has developed an annual schedule for examinations, which remains constant. Examiners are deployed as necessary because each FHLBank is of a different asset size. Each Bank is examined in accordance with statutory and regulatory requirements. As interest-rate risk is a major focus of the Office of Supervision, examiners will receive ongoing training on interest-rate risk assessment and in modeling that risk. The Examinations Manual is in process of review and will add an important management, supervision and communication tool for accomplishing the safety and soundness and mission goals. The Office of Supervision will be supported in its activities by the entire staff of the Finance Board, but most specifically and most regularly, by the Office of General Counsel and the Compliance Assistance Division of the Office of Policy. The Finance Board will work with other regulatory agencies through informal meetings to maximize education about risk assessment methodologies. The Office of Supervision will report to the board of directors of the Finance Board and the boards of directors of each FHLBank and the Office of Finance and FICO on examination findings.

KEY FACTOR

The competitive employment environment among regulators may have an impact on the Finance Board's ability to recruit and retain a fully adequate and stable examiner corps.

GOAL II

Rule and Practice Changes for FHLBanks in Order to Enhance their Performance

OBJECTIVE A

Seek enactment by Congress in order to accomplish structural reform to make possible an appropriately capitalized, cooperative system of voluntary members governed by the boards of the FHLBanks with REFCorp and Affordable Housing Program assessments commensurate with earnings.

PERFORMANCE MEASURES

Legislation enacted that would:

Accomplish voluntary membership in FHLBanks.

Achieve an appropriate approach to the modification of the fixed dollar REFCorp assessment.

Eliminate differing treatment of Qualified Thrift Lender and non-Qualified Thrift Lender Members.

Devolve management issues to FHLBanks, including compensation and dividends, with safety and soundness and mission oversight retained by the Finance Board.

Establish a ratio-based capital structure providing appropriate permanence, flexibility and leverage.

Eliminate, for smaller members, the requirement that they have at least 10 percent of assets in residential mortgage loans.

Expand eligible collateral to include loans for small business, agricultural, rural development, or low-income community development (or securities representing interests in such loans), and all loans secured by real estate.

Expand the use of advances for purposes of funding small business, agriculture, rural development or low-income community development.

Maintain a structure that provides sufficient liquidity support to FHLBank members.

STRATEGIES AND INITIATIVES

The Finance Board will work closely with the FHLBanks and their members as well as with other interested parties such as non-profit community housing and economic development corporations, trade associations, and representatives of the Administration to respond to inquiries from members of Congress on all legislative initiatives. The Office of Congressional Affairs will take the lead in providing support to the Board of Directors in these discussions and the Office of Public Affairs, the Office of General Counsel and the Office of Policy will assist.

KEY FACTOR

Legislation may not be passed that creates the opportunity for the changes listed in the performance measures.

** Goal II and objective will not change in years 1999-2002

GOAL II

Rule and Practice Changes for FHLBanks in Order to Enhance their Performance

OBJECTIVE B

A system for ensuring achievement of mission

PERFORMANCE MEASURES

Complete a cost-benefit study of the FHLBanks, which includes input from FHLBanks, their members, and other interested parties. (1998)

Determine an appropriate oversight methodology. (1998)

STRATEGIES AND INITIATIVES

With the Office of Policy in the lead, supported by expertise from the Office of Supervision, the Finance Board has undertaken a cost-benefit study of the FHLBank System. The Finance Board will be working closely with an outside consultant to ensure a final product that will provide the answer to the critical question of the value of the FHLBanks to their communities. The study will provide quantitative and qualitative information that is needed to inform long-term decisions about ensuring mission achievement by the FHLBanks.

KEY FACTOR

As this is a policy issue, it would have to be voted on and passed by the Board.

GOAL II

Rule and Practice Changes for FHLBanks in Order to Enhance their Performance

OBJECTIVE C

Provide technical assistance through a clearinghouse function to the FHLBanks on marketing methods. which will increase mission-related assets.

PERFORMANCE MEASURES

Increase requests for information by FHLBanks. (Annual)

STRATEGIES AND INITIATIVES

Through meetings with FHLBanks staff, chairs and other directors of the FHLBanks, trade associations, and end users in communities, the Office of Policy will explore new methods and emerging ideas and serve as a clearinghouse and communicator of methods and ideas for the FHLBanks. The staff will collect and disseminate information on marketing methods.

KEY FACTOR

Economic factors, technology and human resources deployment will affect the ability of the Finance Board to deliver on this objective.

** Goal II and objective will not change in years 1999-2002

GOAL II

Rule and Practice Changes for FHLBanks to Order Enhance their Performance

OBJECTIVE D

Provide technical assistance and support to the FHLBanks in the development of new products and services for housing finance needs through pilot review and approval process and policy changes to facilitate the development of products and services by the FHLBanks.

PERFORMANCE MEASURES

Appropriate approval of pilot programs. (Ongoing)

Policy changes to facilitate the development of products and services by the FHLBanks. (Ongoing)

FHLBank members using new products and services in their communities. (Ongoing)

Increase in mission-related assets. (Ongoing)

STRATEGIES AND INITIATIVES

The Office of Policy and the Office of General Counsel will provide research and development for policy initiatives. The Office of Policy will collect information on initiatives in the housing finance field and disseminate this information about successful methodologies. The Office of Policy will provide information about experts in these areas who are available to advise the FHLBanks' boards, management and staff in their development of new products and services. The Office of Policy will provide assistance to the FHLBanks in the area of pilot programs.

KEY FACTOR

Economic and political factors as well as technology and human resources deployment will affect the implementation of this objective. The performance of existing pilot programs will also impact this objective.

*** Goal and objectives will not change in years 1999-2002

GOAL II

Rule and Practice Changes for FHLBanks in Order to Enhance their Performance

OBJECTIVE E

Replace financial management policy with flexible financial management guidelines

PERFORMANCE MEASURES

Proposal published in the Federal Register. (1998)

Comments reviewed and incorporated as appropriate. (1998)

Final guidelines published in the Federal Register. (1998)

Final guidelines implemented. (1999)

STRATEGIES AND INITIATIVES

The Finance Board through its Office of General Counsel and Office of Policy will analyze comments received on the Financial Management Policy and implement a process to receive further comment on substance and scope of a more flexible approach to guiding the FHLBanks in their management of risk. The Finance Board will develop a proposed guideline for comment and, after review and further analysis. develop a final guideline for promulgation.

KEY FACTOR

Deployment of technology, human resources. and commitment of funds to outreach efforts by the Finance Board will affect the achievement of this objective as well as the need for approval of both the proposal and the final guidelines by the Board.

GOAL III

Complete the Devolution of Administrative and Management Functions from the Finance Board to the FHLBanks

OBJECTIVE A

Develop regulations and amendments to regulations on advances documentation. timing of review of credit policies, lending to insolvent and capital deficient members. transfer of advances, inter-FHLBank loans and FHLBank by-laws. elections of industry directors, and other areas of operations as applicable.

PERFORMANCE MEASURES

Proposed regulations published in the Federal Register. (1998)

Comments received and incorporated as appropriate. (1998)

Final regulations published in the Federal Register. (1998 - 1999)

Final regulations implemented. (1999)

STRATEGIES AND INITIATIVES

The Finance Board, through the Office of General Counsel and the Office of Policy, will develop the necessary amendments to existing regulations and any new regulations that are needed to devolve to the FHLBanks, the administrative and management functions that have been housed at the Finance Board. The proposals will be prepared for a vote of the Directors of the Finance Board and, if approved, the proposal will be published in the Federal Register for comment. Comments will be reviewed and analyzed and final amendments and regulations will be produced for Board vote.

KEY FACTOR

The key factor affecting the implementation of this objective will be the approval by the Board.

GOAL III

Complete the Devolution of Administrative and Management Functions from the Finance Board to the FHLBanks

OBJECTIVE B

Provide compliance assistance to the FHLBanks on Finance Board rules, regulations and policy guidelines. (Ongoing)

PERFORMANCE MEASURE

Training and technical assistance on all aspects of program and policy compliance, including financial management guidelines, Affordable Housing Program, Community Investment Program, Community Support Program, membership, elections of industry directors, and mission accomplishment will be provided to the FHLBanks. (Ongoing)

Established procedures for responding to all requests for interpretations of regulations, policies and rules developed by Finance Board staff. (Ongoing)

STRATEGIES AND INITIATIVES

The Finance Board through the Office of Policy, supported by the Office of General Counsel, will monitor and provide compliance assistance as needed to FHLBank management and staff. Finance Board staff will analyze data provided by the FHLBanks to assess compliance with statute, regulations, policies and guidelines.

KEY FACTOR

Over time, the commitment of technology, staff, travel and printing resources will affect the fulfillment of this objective. As more responsibilities are devolved to the 12 FHLBanks, there will be an increased need to provide training as well as technical assistance to FHLBank staff.

GOAL IV

Inform and Solicit Input from Congress and the public about the goals, objectives and achievements of the Finance Board that ensure the safety and soundness, access to capital markets and the housing finance mission of the FHLBanks

OBJECTIVE

Disseminate appropriate publications and information via electronic media, to FHLBank System members and others and hold appropriate public events, including public hearings.

PERFORMANCE MEASURES

Publish annual Report and Annual Low-Income Housing Report submitted to Congress and to the FHLBanks, their members and others.

Produce reports from the Chairman. other publications. including regulations and information on public purpose activities, distributed to Congress and to FHLBanks, their members and others. (Quarterly)

Increase information available on the Finance Board Website. (Ongoing)

Hold Community Partnership Awards Ceremony. (Annually)

Implement orientation for new FHLBank directors. (Annually)

Facilitate meetings for all FHLBank Directors. (Annually)

Testify before Congressional Committees as requested. (Periodically)

STRATEGIES AND INITIATIVES

The Finance Board through the Office of Public Affairs will work with FHLBanks, trade associations, community associations, and other organizations to maximize its ability to communicate and to hear from the public and discrete constituencies about the fulfillment of its mission in several ways: 1) placement of informational articles in available publications; 2) meetings, hearings and ceremonies that coincide with other events; and 3) increased use of the agency's website.

KEY FACTOR

Commitment of technology resources and staff is a key factor in accomplishing this outreach goal.