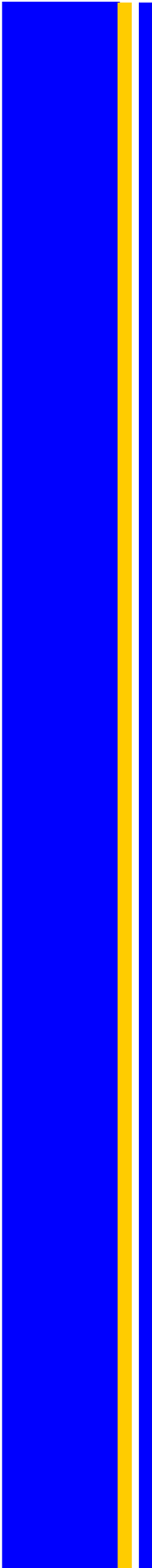




FEDERAL HOUSING FINANCE BOARD

FY2007-2012 STRATEGIC PLAN

September 13, 2006



The Federal Housing Finance Board prepared its Strategic Plan for fiscal years 2007-2012 in accordance with the Government Performance and Results Act of 1993. The plan sets out the Finance Board's mission, vision, values, and strategic goals for the next six years. The Plan also identifies the initiatives the Finance Board will undertake to achieve its goals, its performance outcomes, and performance measures to monitor achievement of those goals.

Direct comments on this plan to:
GPRA-comments@fhfb.gov

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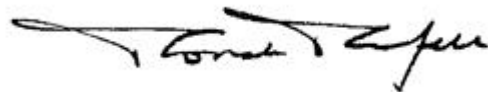
MESSAGE FROM THE CHAIRMAN

On behalf of the Board of Directors, I am pleased to present the Federal Housing Finance Board (Finance Board) Strategic Plan (Plan) for fiscal years 2007-2012. The Plan establishes the Finance Board's strategic direction by defining the agency's vision, goals, and strategies for the next six years. In establishing its goals and implementing its strategies, the Finance Board is attentive to its primary duty to ensure that the Federal Home Loan Banks (FHLBanks) operate in a financially safe and sound manner, and to its other duties to supervise the FHLBanks, ensure that they carry out their housing finance mission, and that they remain adequately capitalized and able to raise funds in the capital markets. In carrying out its duties, the Finance Board will:

- Execute an effective, risk-based supervisory and regulatory program to promptly identify and address current and emerging risks to the FHLBanks. In fiscal year 2007, the Finance Board plans to implement a risk rating system;
- Advance community and economic development activities of the FHLBanks through an oversight program and responsive rulemaking; and
- Maximize agency effectiveness by aligning resources with supervisory responsibilities and enhancing its information technology infrastructure.

The Finance Board will continue to carry out its risk-based supervisory program of the FHLBanks to promote a strong FHLBank System. We will monitor our progress and performance on the initiatives outlined in this Plan and respond appropriately.

Above all, by fulfilling the mission reflected in this Plan, the Finance Board will effectively serve the public who rely upon the FHLBanks as an integral part of the nation's housing finance system.



Ronald A. Rosenfeld
Chairman

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INTRODUCTION

FEDERAL HOUSING FINANCE BOARD

In 1989, Congress established the Federal Housing Finance Board as an independent executive agency to succeed the Federal Home Loan Bank Board in carrying out the supervision of the FHLBanks. The law establishing the Finance Board and prescribing the powers and duties of the Finance Board and the FHLBanks is the Federal Home Loan Bank Act (Bank Act). The primary duty of the Finance Board is to ensure that the FHLBanks operate in a financially safe and sound manner. Consistent with ensuring the safe and sound operations of the FHLBanks, the Finance Board's other statutory duties are to supervise the FHLBanks, to ensure that the FHLBanks carry out their housing finance mission, and to ensure that the FHLBanks remain adequately capitalized and able to raise funds in the capital markets. In addition, the Bank Act requires each FHLBank to establish an Affordable Housing Program to assist their members in providing funds for low- and moderate-income, owner-occupied and affordable rental housing. The Finance Board assesses the effectiveness of this and other community investment programs.

The Finance Board is funded through assessments on the 12 FHLBanks. It receives no appropriations, and its funds are not Government monies.

ORGANIZATION

The Bank Act vests management of the Finance Board in a five-member board of directors consisting of four members appointed by the President with the advice and consent of the Senate and one *ex officio* member, the Secretary of the Department of Housing and Urban Development. No more than three directors may be from the same political party. The appointed directors must have experience or training in housing finance or a commitment to providing specialized housing credit. At least one 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 directors serve staggered seven-year terms. The President

designates the chairperson from among the appointed members.

The Finance Board is organized into five Offices:

The *Office of the Board of Directors* is responsible for setting the agency's overall strategic direction and approving policies and regulations. By delegation from the full Board of Directors, the chairperson supervises management and policy execution. The Board of Directors generally meets monthly in public sessions. The agency's Chief Information Officer, who is responsible for the Finance Board's technology and information systems, reports to the chairperson.

The *Office of Supervision (OS)* is responsible for the supervision and examination of the FHLBanks and the Office of Finance (OF). OS performs this function through annual on-site examinations, quarterly visitations, and off-site monitoring. Other OS responsibilities include supervisory policy and program development, regulatory analysis and development, and economic research and analysis.

The *Office of General Counsel (OGC)* provides legal support and guidance on interpretations of laws, regulations, and policies to Finance Board officials. OGC prepares all legal documents on behalf of the Finance Board and represents the agency in judicial and administrative proceedings. OGC staff manages the Finance Board's ethics and Freedom of Information Act programs, and acts as the Secretary to the Board.

The *Office of Management (OM)* is responsible for the Finance Board's administrative functions, such as accounting, budgeting, human resources, contracting and procurement, facilities and property management, and records management.

The *Office of Inspector General (OIG)* operates pursuant to the Inspector General Act of 1978, as amended. OIG conducts and supervises audits and investigations related to Finance Board programs and operations, and recommends policies to promote economy,

efficiency, and effectiveness, and to prevent and detect fraud and abuse.

FEDERAL HOME LOAN BANKS

In 1932, Congress authorized the establishment of the FHLBanks to stimulate mortgage finance and provide liquidity to credit markets. Until 1989, FHLBank members consisted primarily of savings and loan associations engaged in home financing.

In 1989, Congress extended eligibility for FHLBank membership to commercial banks and federally insured credit unions (subject to a home financing requirement). At that time, Congress also established several FHLBank community investment programs. In 1999, Congress made FHLBank membership voluntary for all types of eligible institutions.

The 12 FHLBanks are located in Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Chicago, Des Moines, Dallas, Topeka, San Francisco, and Seattle. As of June 30, 2006, the FHLBanks had combined assets exceeding one trillion dollars.

The FHLBanks are privately capitalized, government-sponsored enterprises, each with its own management and board of directors. The members of each FHLBank elect a majority of the directors who serve on the board, and the Finance Board appoints a minority of the directors. The Bank Act requires that at least two of the appointed directors at each FHLBank 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 FHLBanks provide wholesale credit to members and certain nonmembers, principally housing finance agencies, for use in mortgage lending and related activities. In addition, the FHLBanks have a mandate to promote housing and community investment finance. The FHLBanks provide long-term, flexible financing to more than 8,000 member financial institutions throughout the country.

The FHLBanks are funded principally by the issuance of consolidated obligations of the FHLBank System in the public capital markets through the OF, which acts as the FHLBanks' agent. Debt issued by the FHLBanks through the OF is the joint and several obligation of all 12 FHLBanks. Consolidated obligations of the FHLBank 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 U.S. government. However, their status as government sponsored enterprises enables the FHLBanks to raise funds at rates slightly higher than comparable obligations issued by the U.S. Treasury.

Members use short and long-term advances (collateralized loans) to fund their lending activities and to maintain liquidity for their operations. Long-term advances may be used 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. The preponderance of the collateral supporting advances consists of mortgage assets.

In addition to advances, the FHLBanks purchase qualifying mortgage loans from members under various acquired member asset programs. Under these programs, the FHLBank manages the market risk associated with the loans, while members bear most of the credit risk (either directly or indirectly through the purchase of mortgage insurance for the loans sold to the FHLBank).

Members have access to a broad array of community investment funds to support affordable housing and community investment activities. The Bank Act requires each FHLBank to allocate ten percent of its annual net income to fund a subsidy program known as the Affordable Housing Program (AHP). Under 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. Since the inception of the AHP in 1990, the FHLBanks have awarded more than \$2.5 billion in subsidies to assist nearly 472,000 housing units.

MISSION STATEMENT

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

VISION

VISION: To maintain the public's trust, the Finance Board is dedicated to the highest professional standards of accountability and independence in carrying out its responsibilities for FHLBank supervision and oversight.

VALUES

VALUES: The core values underlying the Finance Board's mission and vision, and guiding 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 uses its resources efficiently and in the public interest.
- *Responsiveness.* The Finance Board aligns its actions with its mission and responds promptly and effectively to emerging risks and opportunities in the financial system.
- *Integrity.* The Finance Board discharges its responsibilities fairly 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.

STRATEGIC GOALS

GOAL 1: FHLBanks operate safely and soundly.

OUTCOME 1: FHLBanks effectively identify and manage risk.

OUTCOME 2: FHLBanks remain adequately capitalized, and able to raise funds in the capital markets.

GOAL 2: The Affordable Housing and Community Investment Programs of the FHLBanks operate effectively and efficiently.

OUTCOME: FHLBanks foster the development of owner-occupied and affordable rental housing for eligible very low-, low- and moderate-income households.

MEANS AND STRATEGIES

To carry out its mission, the Finance Board has one principal program – supervision of the FHLBanks. Examinations are the cornerstone of the Finance Board’s supervisory program. The Finance Board monitors the performance, condition, and risk profile of each FHLBank through on-site examinations and other supervisory activities. In addition, the Finance Board assesses the effectiveness of FHLBanks’ affordable housing and community investment programs through examinations and other supervisory activities. The Offices of General Counsel and Management support the Office of Supervision in carrying out the Finance Board’s supervisory program.

Means and strategies determine the processes, skills, technologies, and resources that the Finance Board will use to achieve its strategic goals. These have a direct effect on the agency’s overall efficiency and effectiveness. The following means and strategies are used:

LEVERAGE RESOURCES TO MAXIMIZE SUPERVISORY OVERSIGHT AND REGULATORY ACTIVITIES.

Finance Board staff has expertise in many disciplines including, accounting, capital markets, community and economic development, financial analysis, financial modeling, information technology, law, lending, and risk management. An Examiner-In-Charge (EIC) is assigned to each FHLBank and draws on the knowledge and skills of other examiners and agency staff in conducting supervisory activities.

IDENTIFY EMERGING RISKS AND TRENDS.

Supervising the FHLBanks is a dynamic activity. The EIC, in consultation with other agency staff, identifies key risks, including market, credit, and operational risks at an FHLBank, and develops a supervisory strategy. The supervisory strategy allocates resources to risk areas for an individual FHLBank.

APPLY TECHNOLOGY TO ENHANCE THE FINANCE BOARD'S EFFECTIVENESS.

The Finance Board uses quantitative methods and financial models to provide analytic support to the examination function. The agency assesses the market value and market value sensitivity of the FHLBanks and monitors most closely the FHLBanks with the greatest interest rate sensitivity.

SUSTAIN AND IMPROVE ORGANIZATIONAL EXCELLENCE.

The Finance Board endeavors to achieve organizational excellence through recruitment and retention of highly skilled staff and continual development of staff's skills and knowledge. In recent years, the agency has established a performance-based pay system, increased staffing levels, and enhanced employee benefits. The Finance Board is committed to enhancing the performance, skills, and industry knowledge of its managers and staff through training and conference participation.

STRATEGIC GOALS AND ANNUAL PERFORMANCE GOALS

GOAL 1: *FHLBanks operate safely and soundly.*

OUTCOME 1: FHLBanks effectively identify and manage risk.

ANNUAL PERFORMANCE GOAL 1

FHLBanks improve their condition and practices and operate in compliance with supervisory requirements and agreements.

In 2007, the Finance Board plans to implement a risk rating system that assigns composite ratings to the FHLBanks. These ratings are based on an evaluation of an institution's corporate governance, market, credit, and operational risk, and its overall financial condition and performance. An FHLBank's performance in administering its affordable housing and community investment programs is taken into consideration in the assignment of component ratings for corporate governance and operational risk. The composite ratings range from "1" - FHLBank operates in a safe and sound manner to "4" - FHLBank operates in an unacceptable manner.

An FHLBank that has a composite rating of "3" raises supervisory concerns due to deficiencies in its corporate governance, risk management, or its financial condition or performance. Taken alone or in combination, these deficiencies are moderate to severe. The FHLBank may be in substantial noncompliance with laws, regulations, or supervisory guidance. Its board of directors or management may lack the ability or willingness to address deficiencies.

The Finance Board concludes that an FHLBank should be assigned a composite rating of "4" if it exhibits serious deficiencies in corporate governance, risk management, or financial condition and performance. It may be in substantial noncompliance with laws, regulations, or supervisory guidance. The institution requires close supervisory attention, and the Finance Board may initiate a formal enforcement action.

Quarterly or more frequent on-site reviews, off-site monitoring, and subsequent annual examinations assess

whether an FHLBank under a supervisory agreement is making sufficient progress in improving its condition and performance.

OUTCOME 2: FHLBanks remain adequately capitalized, and are able to raise funds in the capital markets.

ANNUAL PERFORMANCE GOAL 1

Each FHLBank operates at or above its minimum capital requirement.

In December 2000, the Finance Board adopted risk-based and total capital standards as required by the Gramm-Leach-Bliley Act of 1999.¹ Each FHLBank’s risk-based capital requirement is based upon the credit, market, and operational risks it assumes. An FHLBank must report its risk-based capital requirement by component, as well as total capital and permanent capital, at least monthly to the Finance Board. The Finance Board monitors compliance with applicable capital requirements and evaluates capital management policies and procedures as part of the on-site examination of the FHLBanks.

In addition, the Finance Board monitors the FHLBanks to be assured that they remain profitable, and given their risk profile, maintain retained earnings at a level that is sufficient to prevent impairment of the value of their capital stock.

ANNUAL PERFORMANCE GOAL 2

The FHLBank System maintains a triple-A credit rating.

The lowest cost credit is available to FHLBank members when the FHLBank System maintains the highest credit rating. This rating allows the

¹ An FHLBank that has not implemented a new capital structure plan must adhere to a regulatory leverage requirement (*see* 12 C.F.R. § 966.3(a)).

FHLBanks to issue consolidated obligations (the funding source for the FHLBanks’ credit products) at terms that are competitive with other government sponsored enterprises (GSEs), and only slightly higher than U.S. Treasury rates. FHLBank members use advances to finance long-term portfolio investments in residential mortgages, including affordable housing, and to fund small business and agricultural loans.

GOAL 2. *The Affordable Housing and Community Investment Programs of the FHLBanks operate effectively and efficiently.*

OUTCOME: FHLBanks foster the development of owner-occupied and affordable rental housing for eligible very low-, low- and moderate-income households.

ANNUAL PERFORMANCE GOAL 1

The FHLBanks promote timely use of the AHP subsidy for eligible households.

Congress expanded the FHLBank System’s public policy mission in 1989 by establishing the AHP.

The FHLBanks’ use AHP funds to support affordable housing activities of their members. The AHP subsidizes the cost of affordable owner-occupied and rental housing for very-low, low- and moderate-income households. The subsidy may be in the form of a grant or a below-cost or subsidized interest rate on an FHLBank advance to a member. The Bank Act requires each FHLBank to contribute at least 10 percent of its annual net earnings to the AHP, subject to a minimum annual combined contribution by all 12 FHLBanks of \$100 million.

The AHP regulation requires that a project must be likely to draw down the AHP subsidy or use it to procure other financing commitments within 12 months of the date of approval of the application. The Finance Board will assess

whether this requirement is met and will work with the FHLBanks to promote timely use of AHP subsidy by approved projects to provide housing to eligible households.

KEY EXTERNAL FACTORS

The environment in which the Finance Board and the FHLBanks operate influences the agency's direction, goals, and priorities. Therefore, the Finance Board is increasing its resources and monitoring to provide for timely assessment of emerging issues and risks and provide supervisory guidance to examiners and the FHLBanks to address these issues and risks. Significant events, influences, and risks that may affect the Finance Board are:

Legislation. Congress has been considering legislation to establish a single agency as the regulator for the GSEs that support the national housing market. This new agency would oversee the safety, soundness, and housing mission achievement of Fannie Mae, Freddie Mac, and the FHLBanks.

Developments in Banking and Financial Markets. Financial markets continue to evolve with new products and services introduced on a regular basis. These developments have the potential to influence, both positively and negatively, the demand for FHLBank products and services and the FHLBanks' financial performance. As the industry changes, the supervisory focus of the Finance Board also must change to ensure continuous effective supervision of the FHLBanks. Recent matters under review include the FHLBanks' responsibilities in response to predatory lending by their members, accountability of officers and directors under the Sarbanes-Oxley Act of 2002, the potential for housing price decreases, increased foreclosure activity in areas affected by natural disasters, consolidation of the financial services industry, and the composition of FHLBank capital and the adequacy of retained earnings.

In addition, the rapid pace of technological innovation, especially in telecommunications and electronic data processing, continues to have a substantial affect on the economy of U.S. financial services. Harnessing technological innovations will create opportunities to improve the Finance Board's efficiency across organizational units and functions.

Economic Variables. Adverse economic conditions such as high unemployment, decreasing housing prices, sharp or prolonged changes in interest rates have the potential to significantly affect the financial condition of the FHLBanks. The Finance Board is responding by directing the FHLBanks to strengthen their risk management practices and business operations vulnerabilities.

Staffing. In the competitive financial services environment, highly skilled personnel are in great demand. This creates an environment in which recruiting and retaining a highly skilled workforce is a continuing challenge. The Finance Board will respond aggressively to recruit and retain examiners, economists, accountants, analysts, and attorneys with the requisite financial and technological skills to model, monitor, and assess the risks undertaken by the FHLBanks.

Continuity of Operations. Financial institutions must maintain capacity to resume business after a crisis. Ensuring preparedness for a crisis continues to be a priority for the Finance Board, both for its own operations and those of the FHLBanks and OF.

The Finance Board maintains an Emergency Operations Center that has direct connectivity to all agency systems and provides essential personnel with the necessary resources to continue agency operations.

STRATEGIC PLANNING PROCESS

To develop the FY2007-2012 Strategic Plan, representatives from all the Finance Board's Offices considered the risk profile of the FHLBanks, recent innovations in the banking industry, legislative developments, and issues affecting FHLBank members and housing associates. Staff also evaluated organizational considerations such as human capital, diversity management, financial resources, and technology.

The Finance Board developed new measures to evaluate achievement of the agency's mission. While developing the Plan, the team conferred with agency leadership to discuss and establish agency priorities.

In developing the annual operating budget under the strategic framework, each Finance Board Office develops goals and objectives. The Office of Management reviews these budgets and resulting resource requests, and makes recommendations to the Board of Directors. The Chief Financial Officer and the Budget Officer provide support through the development of the annual operating budget.

PROGRAM EVALUATION

The Finance Board uses program evaluations to improve and enhance its mission performance and support strategic and performance planning efforts. These evaluations take many forms, and are performed by organizations both inside and outside the agency. Staff evaluates and implements recommendations, as appropriate. The principal evaluations include:

SUPERVISORY PROGRAM

General Accounting Office (GAO) Evaluations: The GAO conducts program- and program-support related evaluations of the agency's supervisory program.

Office of Inspector General (OIG) Evaluations: The OIG evaluates the agency's supervisory program and program support operations.

FHLBank Strategic Planning Interview Project: The Finance Board held discussions with senior executives of each FHLBank to gather information about FHLBank practices and experiences in three major areas: (1) risk management and modeling; (2) financial reporting and data collection; and (3) information systems.

Quality Assurance: OS is developing a Quality Assurance (QA) Program that will provide recommendations to facilitate efficient and effective operations. QA also will conduct reviews of all OS programs. These reviews may include ongoing evaluation of work processes, policy development, and decision-making processes.

FINANCIAL MANAGEMENT

Financial Audits: Annually, the OIG contracts with a public accounting firm to audit the Finance Board's financial statements. This audit is conducted in accordance with generally accepted auditing standards and Government Auditing Standards.

INFORMATION TECHNOLOGY

Federal Information Security Management Act (FISMA): The OIG annually reviews and evaluates the agency's information technology systems for FISMA compliance. This includes evaluating information technology controls for financial management systems.

Network Penetration: Annually, the Finance Board contracts with an outside company of security experts to perform network penetration testing of our information technology systems.

Customer Satisfaction Survey: Annually, the Finance Board conducts a survey of all end-users to obtain their opinions on the quality of the agency's products and services. This allows a better understanding of user needs and improved service.

diverse applicant pool. In addition, the Finance Board is committed to continuing to take advantage of employment programs that integrate veterans, disabled, and other populations into the public sector workforce.

HUMAN CAPITAL MANAGEMENT

Human Capital Management Survey: Annually, the Finance Board participates in the Office of Personnel Management's Human Capital Management Survey. Recommendations are evaluated and implemented, as appropriate.

Training and Development Program: The Finance Board is committed to training and development of its staff to build, maintain, and improve individual and team competencies to meet current and future demands and challenges in the financial and regulatory arenas. OS has begun a more formalized training and development program to address a variety of training and development opportunities through various activities and forums. Consideration of a particular training or development activity is based on the need to acquire new skills or enhance performance.

Workplace Improvement Committee: Representatives from all offices within the Finance Board meet to identify and pursue improvements to the work environment.

Equal Employment Opportunity (EEO): The Finance Board is committed to equal employment opportunity and the implementation of a strong EEO program to promote employment and advancement opportunities without regard to race, sex, sexual orientation, religion, color, national origin, age, or disability. The Minority and Disabled Recruitment Task Force, comprised of staff from a cross-section of Offices and disciplines within the Finance Board, meets periodically and discusses strategies for enhancing recruitment initiatives to attract a