
Federal Housing Finance Board

Annual Performance Budget

Fiscal Year 2008



November 14, 2007

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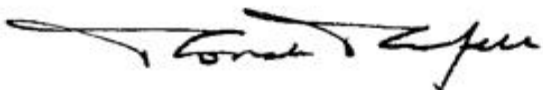
MESSAGE FROM THE CHAIRMAN

I am pleased to present the Federal Housing Finance Board's (Finance Board) Annual Performance Budget for fiscal year 2008 (FY2008). This Performance Budget is the blueprint for implementing the Finance Board's Strategic Plan for the coming fiscal year. It identifies specific performance goals and measures together with means and strategies that will allow the Finance Board to achieve the goals and outcomes articulated in its Strategic Plan.

In 2006, the Finance Board adopted a Strategic Plan for fiscal years 2007-2012. This Plan includes two goals that drive the Finance Board's activities and operations. These goals are: (1) the Federal Home Loan Banks (FHLBanks) operate safely and soundly; and (2) the affordable housing and community investment programs of the FHLBanks operate effectively and efficiently. In FY 2008, the Finance Board will achieve these goals by allocating resources to carry out the safety and soundness and affordable housing and community investment examination and supervision programs. The Finance Board will emphasize the following:

- Expanding risk-focused supervision and examination through refinements to our risk rating system and the collaborative development of supervisory strategies.
- Enhancing our affordable housing and community investment examinations through increased focus on program evaluation and improved quality control processes.
- Developing policies, guidance, and regulations, as appropriate, to reflect recent developments in financial accounting and disclosure, capital management, risk management, and mortgage markets, including the markets for mortgage backed securities.
- Continuing to enhance our agency's data systems, risk monitoring, and risk modeling capabilities.

We remain committed to fulfilling our mission of ensuring the safety and soundness of the FHLBanks so they can continue to serve as reliable sources of liquidity and housing finance for their members and the American public.



Ronald A. Rosenfeld
Chairman

MISSION, VISION, AND VALUES

THE MISSION OF THE FEDERAL HOUSING FINANCE BOARD

The Finance Board's mission 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.

OUR 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.

OUR VALUES

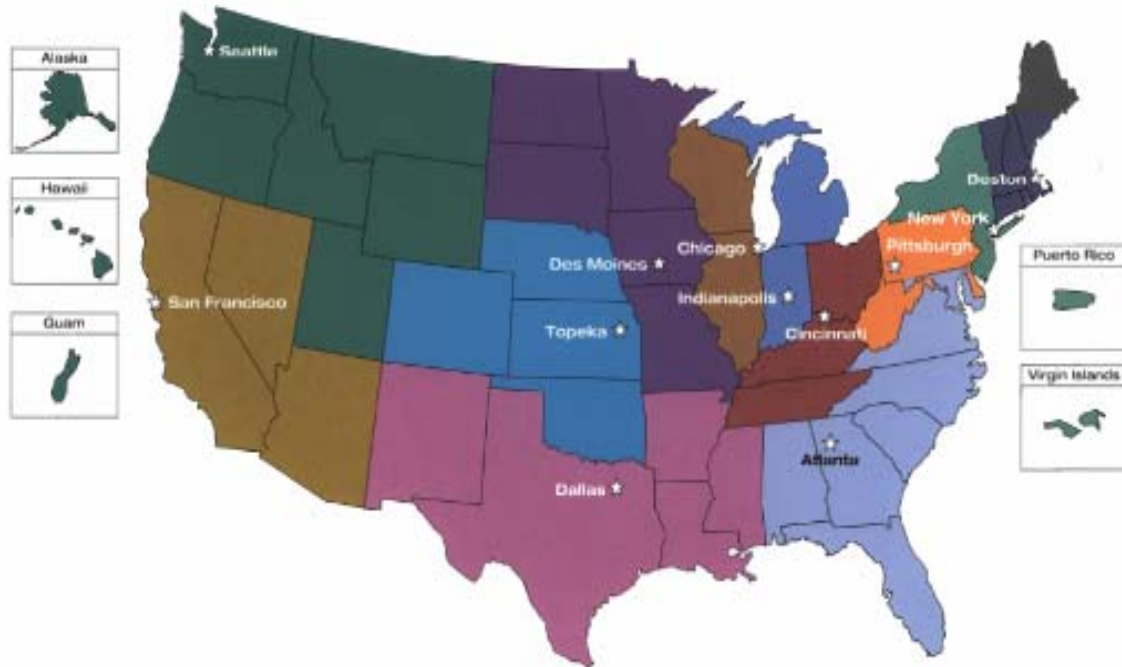
The core values underlying the mission and vision of the Finance Board, which guide its organizational decisions and actions, are:

- Independence. The Finance Board is the arm's-length regulator of the FHLBanks and the Office of Finance.
- 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 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.

THE FEDERAL HOME LOAN BANK SYSTEM

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). In 1999, Congress made FHLBank membership voluntary for all types of eligible institutions.

FEDERAL HOME LOAN BANK DISTRICTS



The FHLBanks are privately capitalized, government-sponsored enterprises that provide wholesale credit to members and certain nonmembers to be used for 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 8,100 member financial institutions around the country. As of September 30, 2007, the FHLBanks had combined assets exceeding \$1.2 trillion dollars.

The FHLBanks are funded principally by the issuance of consolidated obligations of the FHLBank System. These consolidated obligations consist of bonds (with original maturities of one year or longer) and discount notes (with original maturities 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. Debt issued by the FHLBanks through the Office of Finance is the joint and several obligations of all 12 FHLBanks.

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 through a loss-sharing arrangement or the purchase of mortgage insurance for the loans sold to the FHLBank.

THE FEDERAL HOUSING FINANCE BOARD

The Finance Board is an independent agency established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. It is the successor agency to the former Federal Home Loan Bank Board, which was established by the Federal Home Loan Bank Act of 1932 (Bank Act). The Finance Board's statutory mandate is to ensure that the FHLBanks operate in a financially safe and sound manner, carry out their housing finance mission, and remain adequately capitalized and able to raise funds in the capital markets. In addition to its supervision of the FHLBanks, the Finance Board has regulatory authority and supervisory oversight responsibility for the Office of Finance, a joint office of the FHLBanks, which issues FHLBank System debt.

The Finance Board is governed by a 5-member board of directors. Four of the directors are appointed by the President and confirmed by the Senate and 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. No more than three directors may be members of the same political party.

At least one appointed director must be from an organization with more than a 2-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 7-year terms. The President designates the chairperson of the board of directors from among these appointed members.

The Finance Board is organized into five Offices:

The *Office of the Board of Directors* is responsible for setting the agency's strategic direction and approving policies and regulations. By delegation from the full board, the chairperson supervises management and policy execution. The board 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.

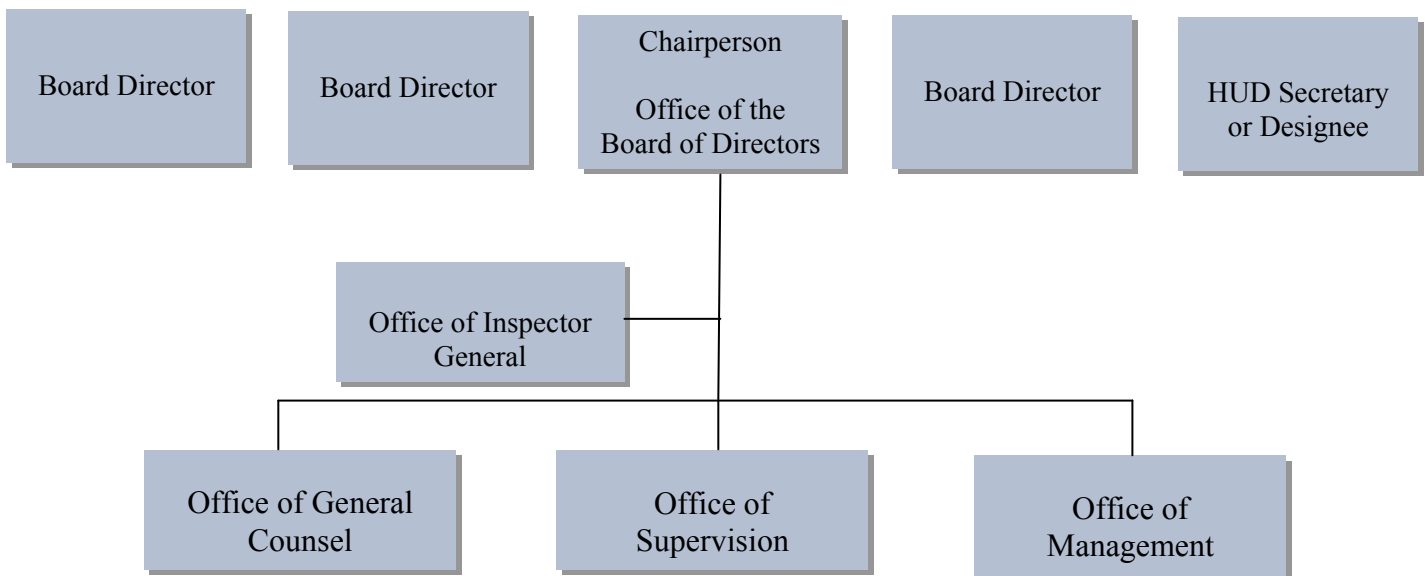
The *Office of Supervision* is responsible for the supervision and examination of the FHLBanks and the Office of Finance. The Office of Supervision performs this function through annual on-site examinations, periodic visitations, and off-site monitoring. Other Office of Supervision responsibilities include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

The *Office of General Counsel* provides legal support and guidance on interpretations of laws, regulations, and policies to Finance Board officials. The Office of General Counsel prepares legal documents on behalf of the Finance Board and represents the agency in judicial and administrative proceedings. The Office of General Counsel 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 is the principal advisor to the Chairman of the Finance Board on management and organizational policies and is responsible for the Finance Board's administrative management programs. This includes responsibility for the Finance Board's finance and accounting, budget, personnel, payroll, contracting and procurement, and facilities and property management.

The *Office of Inspector General* operates pursuant to the Inspector General Act of 1978, as amended. The Office of Inspector General 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 HOUSING FINANCE BOARD ORGANIZATION CHART



SUPERVISION OF THE FEDERAL HOME LOAN BANKS

The primary duty of the Finance Board is to ensure that the FHLBanks and the Office of Finance operate in a financially safe and sound manner. The Finance Board also assesses the FHLBanks' administration of their affordable housing and community investment programs.

Evaluating the performance, condition, and risk profile of each FHLBank through on-site examinations is the cornerstone of the Finance Board's safety and soundness supervisory program. As part of each examination, examiners and other members of the Office of Supervision staff: (1) assess the FHLBank's management of the credit, market, and operational risks that arise from its business and operations; (2) evaluate the FHLBank's financial condition and performance, capital adequacy, and corporate governance; and (3) assess the FHLBank's compliance with federal and state laws, and Finance Board rules and regulations. The Office of Supervision reviews the supervisory findings identified during the on-site examination throughout the year following the on-site examination, and at the next on-site examination.

The Offices of General Counsel and Management and the other divisions in the Office of Supervision support the work of the Supervision and Examination Division. Office of Supervision staff members use quantitative methods and statistical, econometric, and financial models to estimate and evaluate the risks at each FHLBank, including changes in interest rates, interest rate spreads, and interest rate volatility. The Office of Supervision assesses the financial models used by the FHLBanks and evaluates the FHLBanks' ability to respond to changing market and economic circumstances.

The Office of Supervision monitors operational capabilities at the FHLBanks and financial, accounting, regulatory, housing, and mortgage market developments that may affect the FHLBanks. The Office of Supervision staff conducts financial and economic analyses of market conditions and trends, and the effects of these upon the FHLBank System's financial condition, risk profile, and performance.

In 1989, Congress expanded the FHLBank System's public policy mission by establishing the Affordable Housing Program (AHP) and a Community Investment Program through which the FHLBanks provide funding to support the community and economic development activities of their members. In FY2008, the Finance Board will continue to examine and evaluate the FHLBanks' AHP and community investment programs.

PRIORITIES, RESOURCES, AND PERFORMANCE MEASURES

The Finance Board's planning, budgeting, and performance management process sets the strategic direction, determines planned activities and resources, measures and monitors performance throughout the year, and performs an annual performance assessment. These components reflect a continuous cycle of performance management centered on outcomes. The agency uses annual performance assessments to analyze performance and improve effectiveness and efficiency.

The Finance Board produces three main reports as a result of this process. The agency's Strategic Plan, covering a 5-year period, sets overall strategic goals for the agency. Two annual reports illustrate the ways the agency is directing its resources to achieve and measure its progress in achieving its strategic goals. First, the agency produces an Annual Performance Budget, which describes how it will allocate its resources in the upcoming fiscal year to achieve the strategic priorities outlined in the Strategic Plan. Second, the agency produces a Performance and Accountability Report annually, which summarizes the agency's success during the fiscal year in meeting its goals and objectives as set forth in the Annual Performance Budget for that fiscal year. The Performance and Accountability Report also provides Finance Board financial and program performance information.

In its fiscal year 2007-2012 Strategic Plan, the Finance Board established two strategic goals that guide its operation. The Strategic Plan is available on the agency's website (www.fhfb.gov). The two strategic goals are:

- The FHLBanks operate safely and soundly; and
- The affordable housing and community investment programs of the FHLBanks operate effectively and efficiently.

For each strategic goal, the agency established strategic outcomes that it expects to achieve. The Finance Board developed annual performance goals to provide indicators of progress by the Finance Board and the FHLBanks. Finally, in recognition of the fact that the goals the Finance Board has set depend not only on the actions of the Finance Board but also on the actions of each of the FHLBanks, the Finance Board has adopted annual performance measures for Finance Board actions to ensure that the agency is doing the most it can to ensure that it meets the strategic goals and outcomes. The relationship between strategic goals, outcomes, annual performance goals, and measures is depicted below.

STRATEGIC GOAL	STRATEGIC OUTCOMES	ANNUAL PERFORMANCE GOALS	ANNUAL PERFORMANCE MEASURES
1. The FHLBanks operate safely and soundly.	<p>1. The FHLBanks effectively identify and manage risk.</p> <p>2. The FHLBanks remain adequately capitalized and able to raise funds in the capital markets.</p>	<p>1. The FHLBanks address principal safety and soundness examination findings to the satisfaction of the Finance Board prior to the next examination.</p> <p>2. The FHLBanks correct supervisory or compliance issues within required timeframes.</p> <p>3. The FHLBanks' combined financial statements comply with applicable laws, rules, and regulations.</p>	<p>1. Conduct all safety and soundness activities, including annual examinations, quarterly visitations, and off-site monitoring.</p> <p>2. Review safety and soundness examination findings with the FHLBanks semi-annually to ensure the FHLBanks are making progress to remedy identified shortcomings.</p> <p>3. Conduct on-site examination of the Office of Finance and review annual and quarterly combined statements issued by the Office of Finance for compliance with disclosure requirements.</p>
2. The FHLBanks' affordable housing and community investment programs operate effectively and efficiently.	1. The FHLBanks foster the development of owner-occupied and affordable rental housing for eligible very low-, low-, and moderate-income households.	<p>1. The FHLBanks address principal affordable housing examination findings to the satisfaction of the Finance Board prior to the next examination.</p> <p>2. The FHLBanks distribute affordable housing funds as approved in the AHP application.</p>	<p>1. Conduct all affordable housing activities, including annual examinations and off-site monitoring.</p> <p>2. Review affordable housing and community investment examination findings with the FHLBanks semi-annually to ensure the FHLBanks are making progress to remedy identified shortcomings.</p> <p>3. Use examinations to review program effectiveness as well as compliance with the Bank Act, Finance Board regulations, and FHLBank policies.</p>

The Finance Board has established two strategic outcomes to indicate the degree to which it is achieving its first strategic goal that the FHLBanks operate safely and soundly. To the extent that the FHLBanks are able to effectively identify and manage risk, to remain adequately capitalized and able to raise funds in the capital markets, they are more likely to

operate safely and soundly. To provide even more precision, the Finance Board established annual performance goals to determine the degree to which the FHLBanks are acting promptly to correct deficiencies identified by the Finance Board, and to determine the degree to which the FHLBanks' combined financial statements comply with applicable laws and regulations. The annual performance measures listed in the above table, conducting all safety and soundness examinations and activities, following up with the FHLBanks to ensure progress is being made to resolve deficiencies identified, and conducting an examination of the Office of Finance and reviewing the combined financial statements released by the Office of Finance, will ensure that the Finance Board is meeting its mandate to ensure the safe and sound operations of the FHLBanks.

The Finance Board has established a strategic outcome to indicate the degree to which it is meeting its second strategic goal that the affordable housing and community investment programs of the FHLBanks operate effectively and efficiently. The strategic outcome requires the FHLBanks foster the development of owner-occupied and affordable rental housing for eligible very low-, low-, and moderate-income households. As indicators of annual progress by the FHLBanks in meeting the Finance Board's goal of operating their affordable housing and community investment programs effectively and efficiently, the Finance Board has established two annual performance goals, one that reveals the degree to which the FHLBanks are acting promptly to correct deficiencies identified by the Finance Board, and another that indicates whether or not the affordable housing funds at each FHLBank are being distributed as approved in the AHP application. The annual performance measures listed in the above table, conducting affordable housing examinations, following up with the FHLBanks to ensure progress is being made to resolve deficiencies identified, and ensuring that Finance Board examinations review program effectiveness as well as compliance with applicable laws, AHP regulations, and policies, will ensure that the Finance Board is meeting its mandate to ensure the effective and efficient operations of the FHLBanks' affordable housing and community investment programs.

ALLOCATING RESOURCES TO MEET OUR GOALS

The Finance Board has prepared its FY2008 Annual Performance Budget to link the agency's strategic and performance goals to the costs of achieving those goals. To achieve these goals, the Finance Board identifies and resolves safety and soundness issues, promulgates regulations to enhance the safety and soundness of the FHLBanks, monitors the FHLBanks' activities so they can serve the nation's housing finance and community investment needs, and aligns the agency's human capital and information technology initiatives to the Finance Board's mission, goals, and outcomes.

The tables below show that the agency has allocated the preponderance of available resources -- in both full-time equivalents and budgeted dollars -- to Strategic Goal 1, which reflects the primary duty of the Finance Board.

STRATEGIC GOAL 1 THE FEDERAL HOME LOAN BANKS OPERATE SAFELY AND SOUNDLY				
Summary	FY2006 Actual	FY2007 Projected	FY2008	
			Budget	Change from FY2007
Program FTE	86.4	89.3	95.1	6.5%
Infrastructure & Support FTE	20.2	21.1	23.8	12.8%
Total FTE	106.6	110.4	118.9	7.7%
Program Expenses (\$M)	\$19.6	\$21.7	\$24.6	13.4%
Infrastructure & Support Expenses	\$ 4.6	\$ 5.2	\$ 6.2	19.2%
Total Budget	\$24.2	\$26.9	\$30.8	14.5%

STRATEGIC GOAL 2 THE AFFORDABLE HOUSING AND COMMUNITY INVESTMENT PROGRAMS OF THE FEDERAL HOME LOAN BANKS OPERATE EFFECTIVELY AND EFFICIENTLY				
Summary	FY 2006 Actual	FY 2007 Projected	FY 2008	
			Budget	Change from FY2007
Program FTE	21.0	21.9	24.5	9.6%
Infrastructure & Support FTE	4.9	5.2	6.1	17.3%
Total FTE	25.9	27.1	30.6	12.9%
Program Expenses (\$M)	\$4.8	\$5.3	\$6.3	18.9%
Infrastructure & Support Expenses	\$1.1	\$1.3	\$1.6	23.1%
Total Budget	\$5.9	\$6.6	\$7.9	19.7%

MEANS AND STRATEGIES TO MEET OUR GOALS

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, controls, 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

The Finance Board staff has expertise in many disciplines including accounting, capital markets, community and economic development, economic and financial analysis, financial modeling, information technology, law, lending, and risk management. An examiner-in-charge is assigned to each FHLBank and to the Office of Finance 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 examiner-in-charge, 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 analytical and technical 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 market value sensitivity.

SUSTAIN AND IMPROVE ORGANIZATIONAL EXCELLENCE

The Finance Board achieves organizational excellence through recruitment and retention of highly skilled staff and regular development of its 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.

The Finance Board's supervisory program focuses on the FHLBanks' programs, activities, and operations with the highest risk to the safety and soundness of the FHLBanks and their ability to achieve their housing finance mission. There is no evidence to suggest that the supervisory program would be more efficient or effective under an alternative approach.

The program is designed to provide flexibility so the agency can promptly address emerging issues. The examiner-in-charge of each FHLBank annually develops a supervisory strategy that identifies the level and complexity of the market, credit, and operational risks associated with an individual FHLBank's programs, activities, and operations. The Finance Board allocates its resources to focus on these risks and the identified weaknesses, trends, and emerging issues.

THE YEAR AHEAD

Ongoing Supervision. The Finance Board's FY2008 operating budget includes \$30.8 million, which is 79.6 percent of the total agency budget, to undertake its safety and soundness supervisory program. To fulfill their housing finance mission, the FHLBanks offer advances, purchased mortgage programs, and other services. These activities result in the FHLBanks assuming varied and complex market, credit, and operational risks that they must evaluate and manage. The Finance Board's safety and soundness supervisory program evaluates and monitors the FHLBanks condition and earnings and whether the risk management processes at each FHLBank effectively reflect and control the FHLBank's level of risk.

The Finance Board's FY2008 budget includes \$7.9 million to undertake its affordable housing and community investment supervisory program. The Finance Board examiners monitor the Banks' compliance with statutory and regulatory requirements for affordable housing and community investment, evaluate program operations and controls, and assess program effectiveness. Most resources are devoted to AHP examinations, with the principal focus on the competitive application program and the homeownership set-aside program.

During FY2008, the Finance Board's supervisory program will focus on (i) activities, operations, and strategies that pose risks to the safety and soundness of the FHLBanks and (ii) the FHLBanks' effectiveness in carrying out their housing finance mission, which includes, but is not limited to, their affordable housing and community investment programs. The following processes are central to the Finance Board's application of a risk-based supervisory approach: (1) identification of market, credit, and operational risks; (2) use of common methods of evaluation to measure these risks; and (3) determination of whether the policies, systems, and processes employed by each FHLBank and the Office of Finance enable its board of directors and senior management to manage existing and prospective levels of risk.

At the conclusion of an on-site examination, Finance Board examiners discuss their findings with the FHLBank's senior management. The agency uses reason and moral suasion to influence the practices of the FHLBanks. When those methods are unsuccessful or concerns are raised to a level of significance, the Finance Board may use informal and/or formal enforcement actions to correct practices, conditions, or violations of law and/or regulations. When the Finance Board examination staff identifies significant supervisory or compliance issues, including unsafe and unsound practices, weaknesses, or violations of laws or regulations, the Finance Board may enter into supervisory agreements with the FHLBank.

Risk-Focused Supervision. In FY2007, the Finance Board implemented the Federal Home Loan Bank Risk Rating System (FHLBRS) under which each FHLBank and the Office of Finance is assigned a composite rating based on evaluations of five key components: corporate governance, market risk, credit risk, operational risk, and financial condition and

performance. In FY2008, the agency will focus on evaluating the consistency of examination ratings standards across the 12 FHLBanks. In addition, the agency will more explicitly incorporate AHP findings into the FHLBRS.

During 2008, the Finance Board will follow-up on adverse findings in 2007 reports of examination, paying particular attention to findings related to operational risk and information technology, derivatives practices, capital, and liquidity management. This will require greater integration between risk modeling and capital markets examination staff. Examinations will assess the adequacy and prudence of market risk limits of the FHLBanks and their compliance with those limits as well as the adequacy of their retained earnings in light of risks and capital structure. The scope of each examination will reflect the principal risks facing the institution, including input from the examination staff, modeling staff, bank analysts, accountants, and economists. During FY2008, the Office of Supervision may also conduct cross-FHLBank (horizontal) reviews of specific issues, *e.g.*, collateral or management of the acquired member assets programs.

Off-Site FHLBank Monitoring and Analysis. Finance Board analysts review FHLBank activities, financial condition, fiscal and operating performance, and regulatory compliance, and assess market developments that may affect the FHLBank System. These analysts also work closely with the examination staff to establish the scope of examination of the FHLBanks and review the financial condition and performance of the FHLBanks at the on-site examinations. Finance Board analysts also prepare analytical papers on market conditions and trends and their effects on the FHLBank System's condition, profitability, and stability.

Economic and Financial Analysis. The principal means for providing support to the examinations is through evaluations of the quality of risk modeling at the FHLBanks and through the research and analysis of systemic trends affecting the FHLBanks and the FHLBank System. The staff contributes to each report of examination. The primary means for providing program analysis and regulatory and policy development support is through statistical and other quantitative analyses of factors influencing FHLBank performance and through research and analytical support for Finance Board regulatory or policy initiatives, including longer-term policy-oriented research to support regulatory and supervisory initiatives. The staff also prepares semi-annual profiles of the 12 FHLBanks and the FHLBank System, along with periodic reporting of trends or market developments affecting the FHLBanks and monitors trends affecting housing finance and the housing industry.

In FY2008, staff will continue the development of a "model FHLBank," which will simulate the risks and expected returns of an FHLBank with similar asset, liability, and hedging strategies. Also continuing into FY2008 is the research necessary to update the Finance Board's risk-based capital standards. As part of this work, economists will also be examining the potential for a link between risk-based capital and the appropriate level of retained earnings at an FHLBank.

Quality Assurance. In FY 2007, the Office of Supervision established a Quality Assurance Unit to provide objective assessments of the office's supervisory and regulatory operations and to add value by identifying potential opportunities to improve or enhance existing practices. In FY2008, the Quality Assurance Unit will conduct its first formal review of Finance Board examinations to assess their quality, accuracy, completeness, organization, and conformance with agency policies. The Quality Assurance Unit will also finalize procedures for its future reviews of other Office of Supervision functions.

Policy and Regulations. In FY2007, the Office of Supervision created a Supervisory and Regulatory Policy Division responsible for safety and soundness, accounting policy, and AHP and community investment policy. During the year, the Finance Board finalized rules regarding appointment of FHLBank directors and permissible financial interests for those directors. In addition, the Office of Supervision issued guidance on non-traditional and sub prime residential lending. Monitoring related developments will remain a priority in FY2008. In FY2008, efforts will continue to reassess and refine the agency's regulatory infrastructure including completion of a review of the acquired member assets regulation, governance issues specific to compensation, and enhanced accounting policy guidance. Additional goals include a review of the FHLBanks' collateral policies and procedures, and development of revised risk-based capital standards after the ongoing research is completed.

New Business Activities. When an FHLBank determines that it wants to engage in a new business activity, it must provide notification to the Finance Board, which then has 60 days to respond before the FHLBank can engage in this activity. In its review of a new business notice, the Finance Board will assess whether the proposed activity is legal, identify the risks associated with the activity, and evaluate the ability of the FHLBank to manage those risks. The Finance Board will approve an activity it deems appropriate for the FHLBank. The Finance Board reviews implementation of an approved new business activity as part of the on-site examination. In order to allow an FHLBank to respond in a timely manner to emerging needs or requests by its members, in FY2008 the Finance Board seeks to evaluate completed new business activity requests within 45 days (on average).

Capital Structure Plans. In December 2000, the Finance Board adopted a regulation that requires the FHLBanks to establish a new risk-based capital structure. The new capital structure establishes minimum capital standards and requires the FHLBanks to set the minimum amount of FHLBank stock that members must hold. In 2002, the Finance Board approved the capital structure plans submitted by the FHLBanks and to date, 11 of the 12 FHLBanks have implemented their plans.

Finance Board approval is required for amendments to an FHLBank's capital structure plan. To allow an FHLBank to respond in a timely manner to emerging needs, in FY2008 the Finance Board plans to assess completed proposals to amend a capital plan within 45 days (on average).

Combined FHLBank System Financial Statements. Each FHLBank is now subject to the Securities Exchange Act of 1934 periodic disclosure requirements, which include the periodic preparation and filing of public disclosures relating to its financial condition, results of operations, trends, or uncertainties affecting its business, and management's assessment of its business and financial condition, including supporting financial information and certifications. The Office of Finance prepares the combined financial statements for the entire FHLBank System in accordance with 12 C.F.R. § 985.6(b). The Finance Board assesses whether the combined financial statements comply with the agency's regulations and policies.

Risk Monitoring and Information Technology Support. The Finance Board continues to enhance the agency's data management and information systems. In FY2007, the agency continued to collect data in accordance with the requirements outlined in the Data Reporting Manual. During FY2008, the Finance Board will establish policies and procedures to govern the release of data the Finance Board receives from the FHLBanks and the distribution of sensitive information to the FHLBanks over the Internet.

The Call Report System (CRS.net) provides an integrated framework through which the Finance Board gathers financial and other information from and about the FHLBanks. Specifically, CRS.net captures the FHLBanks' call report information as well as certain instrument level data used by the FHLBanks to run their financial models. In FY2008, we will evaluate the need for further enhancements to CRS.net, especially inclusion of risk management data through CRS.net.

In FY2008, the agency plans to begin re-specifying and rebuilding the Membership system database as well as reviewing and augmenting policies and procedures for capture, maintenance, and distribution of information. In addition, the Finance Board will continue to develop off-site risk monitoring and reporting functions to build upon the information collected from the FHLBanks.

Supervisory Guidance. In FY2007, the Finance Board substantively revised its safety and soundness examination manual and work programs. The agency will continue to update this manual to incorporate feedback from examiners using the manual and comments, if any, from the public and the FHLBanks. An Office of Supervision training program was developed, and the first training module was offered in late FY2007. The Office of Supervision will continue to enhance this training with additional modules focusing on specific subject matter areas. In FY2008, guidance will be developed regarding the content of and schedules for the preparation and delivery of Reports of Examination.

In FY2008, the Finance Board will continue to develop and issue supervisory guidance to the FHLBanks through advisory bulletins and regulatory interpretations. Staff will provide timely guidance that incorporates effective best practices in response to emerging risks, the evolving activities and operations of the FHLBanks, developments in the financial markets, and new supervisory issues.

PERFORMANCE MEASUREMENT: ASSESSING OUR PROGRESS

For each strategic goal, the agency established strategic outcomes that it expects to achieve. The Finance Board developed annual performance goals to provide indicators of progress by the Finance Board and the FHLBanks. Finally, in recognition of the fact that the goals the Finance Board set depend not only on the actions of the Finance Board but also on the actions of each of the FHLBanks, the Finance Board has adopted annual performance measures only for Finance Board actions to ensure that the agency is doing the most it can to ensure that it meets the strategic goals and outcomes. Listed below are the annual performance measures and the degree to which they have been achieved. Most of the measures are new, reflecting the agency's efforts to continually evaluate and revise if necessary, its performance measures to provide assurance that it is holding itself to standards that reflect its own actions. The Finance Board will report on its progress in meeting these annual performance measures in its FY2008 Performance and Accountability Report, which will be issued in November 2008.

STRATEGIC GOAL 1						
THE FEDERAL HOME LOAN BANKS OPERATE SAFELY AND SOUNDLY						
ANNUAL PERFORMANCE MEASURES						
	2002	2003	2004	2005	2006	2007 Year-to- Date
1. Conduct all safety and soundness activities, including annual examinations, quarterly visitations, and off-site monitoring.	Achieved	Achieved	Achieved	Achieved	Achieved	On Schedule
2. Review safety and soundness examination findings with the FHLBanks semi-annually to ensure the FHLBanks are making progress to remedy identified shortcomings.	New Metric					
3. Conduct on-site examination of the Office of Finance and review annual and quarterly combined statements issued by the Office of Finance for compliance with disclosure requirements.	New Metric					

STRATEGIC GOAL 2						
THE AFFORDABLE HOUSING AND COMMUNITY INVESTMENT PROGRAMS OF THE FEDERAL HOME LOAN BANKS OPERATE EFFECTIVELY AND EFFICIENTLY						
ANNUAL PERFORMANCE MEASURES						
	2002	2003	2004	2005	2006	2007 Year-to-Date
1. Conduct all affordable housing activities, including annual examinations and off-site monitoring.	New Metric					
2. Review affordable housing and community investment examination findings with the FHLBanks semi-annually to ensure the FHLBanks are making progress to remedy identified shortcomings.	New Metric					
3. Use examinations to review program effectiveness as well as compliance with the Bank Act, Finance Board regulations, and FHLBank policies.	New Metric					