



# FEDERAL HOUSING FINANCE BOARD



## ANNUAL PERFORMANCE BUDGET

FY2007

September 13, 2006

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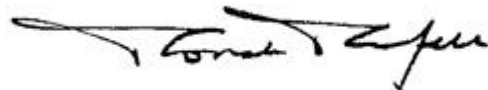
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## MESSAGE FROM THE CHAIRMAN

The Federal Housing Finance Board (Finance Board) has adopted a Strategic Plan for fiscal years 2007-2012. This Plan consolidates the three strategic goals from the previous strategic plan into 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 fiscal year 2007 (FY2007), the Finance Board will achieve these goals by allocating substantial 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:

- Implementing a risk-based examination rating system. The Finance Board will consider the ratings in allocating the agency's supervisory resources and identifying the specific corporate governance, financial condition and performance, credit, market, and operational risks presented by the business and operations of each FHLBank.
- Enhancing the agency's data systems and risk monitoring capabilities.
- Expanding supervisory and policy guidance to the examination staff and the FHLBanks.
- Initiating supervisory and regulatory actions to respond to developments in financial markets and FHLBank operations.
- Enhancing the training and development program for Finance Board staff.

This Performance Budget is the Finance Board's blueprint for implementing the 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.



Ronald A. Rosenfeld  
Chairman

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## 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 the Office of Finance (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.

# SUPERVISION OF THE FHLBANKS

The primary duty of the Finance Board is to ensure that the FHLBanks and the OF 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, the examiners: (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; (3) assess compliance with the rules and regulations of the Finance Board, and federal and state laws, and the policies and procedures of the FHLBank. Staff reviews the supervisory issues identified during the on-site examination at the next on-site examination or through other supervisory activities.

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. Division staff uses 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. Staff also assesses the financial models used by the FHLBanks and the FHLBanks' ability to respond to changing market and economic circumstances.

The Finance Board also evaluates financial, housing, operational, and mortgage market developments that may affect the FHLBanks. Staff assesses the financial and economic analyses of 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 (CIP) through which the FHLBanks provide funding to support the community and economic development activities of their members. In FY2007, the Finance Board will assess the effectiveness and efficiency of the FHLBanks' AHP and other community investment programs.

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 to 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 Finance Board has prepared its FY2007 Annual Performance Budget to link the agency's strategic and performance goals to the costs of achieving those goals. As stated in the FY2007-2012 Strategic Plan, the Finance Board has two strategic goals:

In the Finance Board's FY2007 Annual Performance Budget, the agency allocates resources to existing and emerging risks to facilitate the agency's ability to achieve their strategic goals. The resource allocation reflects the redefined strategic goals in the Finance Board's FY2007-2012 Strategic Plan.

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

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.

<b>STRATEGIC GOAL 1</b>				
<b>FHLBANKS OPERATE SAFELY AND SOUNDLY</b>				
Summary	FY2005 Actual	FY2006 Projected	FY2007	
			Request	Change from FY2006
Program FTE	82.7	90.7	94.7	4.0
Infrastructure & Support FTE	23.6	20.1	22.5	2.4
Total FTE	106.3	110.8	117.2	6.4
Program Expenses (\$M)	\$20.3	\$20.2	\$23.7	\$3.5
Infrastructure & Support Expenses	\$ 5.8	\$ 4.5	\$5.6	\$1.1
Total Budget	\$26.1	\$24.7	\$29.3	\$4.6

On-Site Examinations. The Finance Board's FY2007 operating budget includes \$29.3 million to perform the FHLBanks' 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 market, credit, and operational risks. The

FHLBanks must evaluate and manage these varied and complex risks in accordance with their condition and earnings. The Finance Board's supervisory program evaluates and monitors whether the risk management processes at each FHLBank effectively reflect and control the level of risk undertaken by it.

During FY2007, the Finance Board's supervisory program will focus on programs, activities, and operations with the highest risk to the safety and soundness to the FHLBanks. The following processes are central to the Finance Board's application of a risk-based supervisory approach: (1) identification of the 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 OF 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 examination staff discusses 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 formal and/or informal enforcement actions to correct practices, conditions, or violations of law and/or regulations. When Finance Board examination staff identifies significant supervisory or compliance issues, including violations of laws or regulations, the Finance Board may enter into supervisory agreements with the FHLBank.

In FY2006, the Finance Board included a conclusion in each Report of Examination summarizing the FHLBank's overall condition and performance. In FY2007, the Finance Board plans to implement the FHLBank Risk Rating System (FHLBRS). Under the FHLBRS, each FHLBank and the OF 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. The agency will incorporate the assessment of the AHP and community investment programs into the corporate governance and operational risk components. The composite rating of the OF will be based on an evaluation of its corporate governance and operational risk because of the nature of its functional responsibilities.

Off-Site FHLBank Monitoring and Analysis. Finance Board analysts review FHLBank activities, financial condition, fiscal and operating

performance; 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 conditions and trends and the effects of these upon the FHLBank System's condition, profitability, and stability.

Risk Measurement and Modeling. Staff uses quantitative methods and financial models to provide analytic support to the examination function in the area of market risk measurement and modeling. The Finance Board assesses the FHLBanks' risk models and their output, including market value and market value sensitivity, and monitors most closely the FHLBanks with the greatest interest-rate sensitivity and/or financial modeling deficiencies.

Staff supplements the on-site risk modeling assessments with an off-site risk monitoring program consisting of analysis of quarterly data and risk exposure reports prepared by the FHLBanks using their own risk modeling systems. The reports include measures of the sensitivity of the FHLBanks' market value of equity to parallel interest rate shocks, including the effects of duration and convexity. Finance Board staff also reviews proposed changes to the market risk models that FHLBanks use to calculate risk based capital requirements.

In FY2006, the Finance Board developed a tool comprised of a group of instruments that are representative of the financial risk and return characteristics of a specific FHLBank. Combining a select number of instruments allows the Finance Board to analyze the impact of market changes, the exposure to potential interest rate changes, the reliability of the FHLBank's internal reporting, the FHLBank's risk management decisions, the FHLBank's new business strategies and policies, and the FHLBank's earnings

capacity. At present, this tool can be used to evaluate two FHLBanks. In addition, the tool will be expanded to include at least three additional FHLBanks in FY2007. This tool may be expanded in FY2007 to estimate the dollar exposure associated with different levels and types of risk and the earnings derived from different instruments, strategies, and risk levels of each FHLBank.

Quality Assurance. In FY 2006, the agency performed quality assurance reviews of examinations on a limited *ad hoc* basis. In FY2007, the Finance Board plans to formalize its quality assurance program. The quality assurance program will evaluate all aspects of supervisory operations and will facilitate the agency's efficient and effective operations from safety and soundness, housing finance mission, and community investment perspectives.

Regulations. In FY2007, the Finance Board will continue to reassess and refine the agency's regulatory infrastructure. Several rules were issued for public comment in FY2006 which streamline and reorganize requirements for the AHP, enhance corporate governance by establishing qualifications for elected members of the FHLBank boards of directors, and strengthen the capital structure of the FHLBanks by requiring a minimum level of retained earnings and restricting the amount of excess stock capitalizing an FHLBank. Final rules were issued on the first two matters in FY2006, and the agency anticipates issuing final rules on the remaining matters in FY2007.

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 if 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 FY2007, the Finance Board is committed to assessing complete 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. In order to allow an FHLBank to respond in a timely manner to emerging needs, in FY2007, the Finance Board is committed to assessing complete requests 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 an institution's 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 OF 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.

Data Collection and Management. The Finance Board continues to enhance the agency's data management and information systems. In FY2006, the agency adopted its

Data Reporting Manual (DRM). In FY2007, the agency will continue to collect data in accordance with the data requirements outlined in the DRM. 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 FY2006, staff redesigned CRS.net and the agency expects to fully implement the system by the third quarter of FY2007.

In FY2007, the Finance Board will evaluate membership information to combine all data the FHLBanks report into an integrated data repository with appropriate Bank reporting interfaces. A new membership database also will eliminate duplicate data collected in different databases. New features include automating data integrity checks and allowing all users to query the data.

The FHLBanks provide Acquired Member Assets (AMA) summary reports on a quarterly basis and loan specific AMA data on a semi-annual basis. In FY2006, staff converted the AMA database from a flat table format to a relational database. In FY2007, the Finance Board will redesign the Quarterly AMA Report to capture all necessary information in a single table and modify the data reported semi-annually by the FHLBanks.

*Supervisory Guidance.* In FY2006, the Finance Board adopted a substantially revised and updated safety and soundness examination manual. In FY2007, the agency will update this manual to incorporate feedback from examiners using the manual in FY2006.

In FY2007, 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. In recent months, the agency issued advisory bulletins concerning disclosure of unpublished information, model documentation and validation; and AHP and Resolution Funding Corporation contributions.

<b>STRATEGIC GOAL 2</b>				
<b>AFFORDABLE HOUSING AND COMMUNITY INVESTMENT PROGRAMS OF THE FHLBANKS OPERATE EFFECTIVELY AND EFFICIENTLY.</b>				
Summary	FY 2005 Actual	FY 2006 Projected	FY 2007	
			Request	Change from FY2006
Program FTE	19.2	21.0	21.3	0.3
Infrastructure & Support FTE	5.4	4.7	5.0	0.3
Total FTE	24.6	25.7	26.3	0.6
Program Expenses	\$4.7	\$4.7	\$5.3	0.6
Infrastructure & Support Expenses	\$1.3	\$1.0	\$1.3	0.3
Total Budget	\$6.0	\$5.7	\$6.6	0.9

On-Site Examinations. The Finance Board's FY2007 operating budget includes \$6.6 million to perform the AHP and community investment supervisory program. The Finance Board will conduct on-site reviews of the Affordable Housing Program (AHP), Community Investment Programs (CIP), and other Community Investment Cash Advance (CICA) programs of each FHLBank. Examiners review policies, procedures, and controls that address board of directors and management oversight, the subsidy award process, uses of funds, and recipient eligibility.

During the on-site examination, staff will test a sample of AHP projects for compliance with the Finance Board's regulations. Staff will review the FHLBank's CIP for compliance with statutory and regulatory requirements, including eligibility of advances, pricing methodology employed, and application of policies and procedures to verify members' appropriate use of advances. Staff also will review the FHLBank's other CICA programs for compliance with regulatory requirements, including documentation of compliance with targeting requirements and application of policies and procedures to verify members' appropriate use of funds.

The Finance Board generally resolves concerns identified during its examination of the AHP, CIP, and other CICA programs through discussions with FHLBank management and boards of directors. On a regular basis, the agency will monitor the FHLBank's progress in resolving such concerns and will confirm that the issues have been corrected.

Where warranted, the Finance Board can require an FHLBank to take additional remedial action such as suspending or debarring a member, project sponsor, or project owner from participation in the program. In the case of an FHLBank's CIP and other CICA programs, the Finance Board may require an FHLBank to reclassify advances not adhering to applicable statutory and regulatory requirements.

Supervisory Policy. In FY2007, the agency will clarify its policies and regulations in response to inquiries from the FHLBanks, sponsors, and members and create reports that summarize the projects funded through the FHLBanks AHP, CIP, and CICA programs on an annual and *ad hoc* basis. The agency also will continue its outreach efforts to potential beneficiaries of FHLBank affordable housing and community investment programs.

*Supervisory Guidance.* It is anticipated that the Board of Directors will approve a final rule in late FY2006. The proposed effective date is January 1, 2007. The final rule, if issued, would remove overly prescriptive requirements, clarify certain operational requirements, and otherwise streamlined and reorganize the existing AHP regulation.

In FY2006, the agency began to develop the Affordable Housing and Community Investment Program Examination Manual. The manual will reflect the agency's risk-focused approach to on-site reviews of the AHP, CIP, and CICA programs of each FHLBank. The agency will complete the manual and related work programs in FY2007.

*Community Support Programs.* Finance Board regulations implementing a provision of the Bank Act require members to submit community support statements approximately once every two years. In FY2007, the Finance Board will review community support statements of approximately one-half of FHLBank members. The Finance Board will also consider whether revisions to its existing Community Support Regulation are warranted and take actions accordingly.

*Data Collection and Management.* The agency's AHP data collection system has serious limitations. In response, the agency adopted a new AHP data collection system, which was incorporated into the agency's data reporting manual in FY2006. After extensive consultation with technical and program staff at the FHLBanks, the agency has improved the accuracy of the data in the existing AHP database, and established the data collection requirements for the new AHP databases. In FY2007, the Finance Board will collect data in the new AHP Competitive Program database, as well as the Aggregate AHP and Aggregate CICA CRS databases. The Finance Board will begin to collect data for the AHP Set-Aside Program and CICA Member-Level Projects in FY2008.

## 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 achieves 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.



# PROGRAM EVALUATION

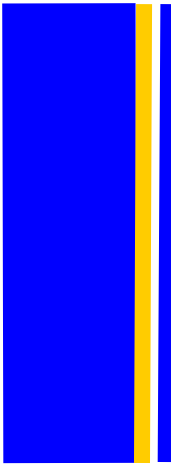
The Finance Board's supervisory program focuses on the FHLBanks' programs, activities, and operations with the highest risk to the safety and soundness of the FHLBanks and their ability to achieve their housing finance mission. There is no evidence to suggest that the supervisory program would be more 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 Finance Board's Strategic Plan for FY2007-2012 describes the agency's mission and defines the vision, strategic outcomes, annual performance goals, and means and strategies the agency will use to accomplish its strategic goals. The FY2007 Annual Performance Budget aligns resources and links the agency's supervisory program to its strategic goals. In particular, the FY2007 Annual Performance Budget sets performance measures to accomplish the strategic goals and desired outcomes.

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.

# PERFORMANCE MEASURES



## GOAL 1:

FHLBanks operate safely and soundly.

## STRATEGIC OUTCOMES:

FHLBanks effectively identify and manage risk.

FHLBanks remain adequately capitalized and are able to raise funds in the capital markets.

GOAL 1: FHLBANKS OPERATE SAFELY AND SOUNDLY.						
PERFORMANCE MEASURES						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Principal examination findings are addressed to the satisfaction of the Finance Board prior to the next examination.						
Target:	New Metric					100%
Actual:						
Supervisory or compliance issues resulting in supervisory agreements are corrected by the FHLBanks within required timeframes.						
Target:	New Metric					100%
Actual:						
Finance Board completes assessment of new business activity and capital plan amendment requests within an average of 45 days of receipt of a complete proposal.						
Target:	New Metric					100%
Actual:						

The first two performance measures gauge the agency's ability to monitor and supervise an FHLBank as it takes corrective actions in response to supervisory or compliance issues identified through the Finance Board's supervisory program. Principal examination findings are required to be addressed to the Finance Board's satisfaction prior to the start of the next annual examination. At a minimum, the FHLBank must have developed an action plan to correct the issues identified in the findings prior to the start of the next annual examination. Thereafter, the agency will monitor the FHLBank's progress in implementing the action

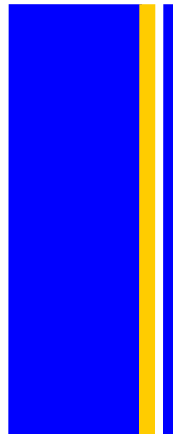
plan through follow-up reviews and the subsequent annual on-site examinations.

Where warranted, the Finance Board may enter into a supervisory agreement with an FHLBank and its board of directors. Supervisory agreements signed or revised after October 1, 2006 will include specific action plans and timeframes to remedy deficiencies. The second performance measure gauges the success of these agreements, namely that supervisory or compliance issues addressed in supervisory agreements are corrected by the FHLBanks within required timeframes.

The third performance measure gauges the efficiency and responsiveness of the Finance Board in addressing requests from the FHLBanks. Finance Board regulations require the agency to assess a new business activity notice within 60 days after the notice is deemed complete. While not specified in its regulations, the Finance Board's practice has been to assess

capital plan amendments within 60 days once the amendment request has been deemed complete. In FY2007, the Finance Board has set a performance measure to reduce its response time for both of these requests by 25 percent to an average of 45 days. This is a new metric, and, as such, it applies to FHLBank requests received on or after October 1, 2006.

# PERFORMANCE MEASURE



## GOAL 2:

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

## STRATEGIC OUTCOME:

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

GOAL 2: THE AFFORDABLE HOUSING AND COMMUNITY INVESTMENT PROGRAMS OF THE FHLBANKS OPERATE EFFECTIVELY AND EFFICIENTLY.						
PERFORMANCE MEASURE						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Timing of Subsidy Use: Affordable housing funds are distributed as approved in the AHP application.						
Target:	New Metric					100%
Actual:						

The AHP subsidizes the cost of owner-occupied housing for individuals and families with incomes at or below 80 percent of the area median income, and rental housing in which at least 20 percent of the units are reserved for households with incomes at or below 50 percent of area median income. The subsidy may be in the form of a grant or subsidized interest rate for an advance. AHP funds are available through competitive application programs as well as through set-aside programs.

In the competitive program, members submit applications on behalf of one or more sponsors of eligible housing projects. Projects must meet certain eligibility requirements and score successfully in order to obtain funding.

Typically, the AHP is used to fill the gap in financing between the sponsor's equity and any private and/or public sector financing. However, AHP funds often are the first money sponsors seek to obtain, or the funds that must be received before other lenders will disburse their funds.

The regulations require that the AHP subsidy must be likely to be drawn down by the project or used by the project to procure other financing commitments within 12 months of the date of approval of the application for the AHP subsidy. The Finance Board developed the above performance measure to determine whether the FHLBanks' application procedures result in AHP projects that comply with the commitments made in the sponsor's application. These commitments must comply with regulatory

requirements. As a part of each examination as well as through off-site monitoring, the Finance Board will review compliance with this requirement as well as the FHLBank's policies and practices in determining when to de-obligate AHP funds awarded to projects that have not had measurable progress over several periods. This is a new metric, and, as such, it applies to AHP applications approved on after October 1, 2006.