

Office of Federal Housing Enterprise Oversight

Annual Performance Plan

FY 2000



November 30, 1999

OFHEO's FY 2000 ANNUAL PERFORMANCE PLAN

OVERVIEW

Introduction

The Office of Federal Housing Enterprise Oversight ("OFHEO" or the "Office") was established as an independent office within the Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). The Office is headed by a Director appointed by the President for a five-year term.

OFHEO is charged by law to ensure the capital adequacy and financial safety and soundness of two government-sponsored enterprises ("GSEs" or the "Enterprises") – Fannie Mae and Freddie Mac. OFHEO is funded through assessments on Fannie Mae and Freddie Mac. Thus, its operations represent no direct cost to the taxpayer.

Fannie Mae and Freddie Mac are the nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders, and either hold these mortgages in their own portfolios or package them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers. Combined assets and off-balance sheet obligations of Fannie Mae and Freddie Mac were \$1.9 trillion at the end of June, 1999.

Fannie Mae and Freddie Mac are congressionally chartered, publicly owned corporations whose shares are listed on the New York Stock Exchange. Under terms of their GSE charters, they are exempt from state and local taxation and from registration requirements of the Securities and Exchange Commission. The Secretary of the Treasury is authorized to extend up to \$2.25 billion in credit to each Enterprise. In addition, the market perceives there to be an implied government guarantee on the financial obligations of the Enterprises. OFHEO was established to ensure capital adequacy and financial safety and soundness of the Enterprises so that they could continue their public mission with minimum risk of cost to the taxpayer.

Development of the Annual Performance Plan

OFHEO primarily accomplishes its mission by conducting examinations of the Enterprises and by assessing their capital adequacy. These broad objectives may be difficult to quantify and measure. There are three primary reasons that this difficulty exists. First, OFHEO regulates two institutions, not hundreds or thousands. Thus, measuring our performance against our goals by reference to changes in the percent of institutions that meet a standard is not very meaningful for OFHEO. Second, OFHEO was created less than seven years ago during the reinvention era. As a relatively new office, OFHEO continues to develop its complete regulatory framework. Because of this, many of OFHEO's strategies and objectives focus on creating, developing, and

reengineering certain activities and capabilities, rather than eliminating them. Third, OFHEO's role as a regulator is to establish, monitor and enforce regulations and guidelines that the Director believes will ensure that both Enterprises are adequately capitalized and operate in a safe and sound manner. It is these regulations and guidelines, and the strategies and processes used to develop and implement them, that are included in OFHEO's Annual Performance Plan. Hence, OFHEO's overall performance can best be measured by whether or not its actions result in safe and sound operations and adequate capital levels at each Enterprise.

One of OFHEO's top priorities is to complete the risk-based capital regulation, which will enable the Office to apply risk-based capital standards to the Enterprises to determine capital adequacy. Once completed, the stress test will produce a risk-based capital level for each Enterprise and a valuable, measurable regulatory tool. Recognizing how significant this task is to continued effective oversight of the Enterprises, OFHEO has elevated completing the stress test and subsequently issuing the risk-based capital regulation -- activities which might otherwise be viewed as strategies themselves -- to the strategic objective level in both its Strategic and Annual Performance Plans.

Relationship Between the Strategic Plan and the Annual Performance Plan

Strategic Plan

There are four major components to OFHEO's Strategic Plan: (1) mission statement, (2) strategic goals, (3) strategic objectives and (4) strategies to achieve strategic goals.

OFHEO's *mission statement*, like its congressional mandate to ensure the safety and soundness of Fannie Mae and Freddie Mac, is very focused. The mission statement emphasizes protecting the taxpayer, contributing to the strength and vitality of the nation's housing finance system, and providing independent and fair regulation of the Enterprises. Since its inception, OFHEO has structured its regulatory activities around each of these tenets.

From its mission statement, the Office has developed three *strategic goals* which will enable it to accomplish its mission. These strategic goals provide long-term direction to the Office. OFHEO further defines its strategic goals with accompanying *strategic objectives*. The strategic objectives represent measurable goals that OFHEO plans to accomplish during the period covered by the Strategic Plan which are representative of the progress toward achieving its strategic goals. The final component of OFHEO's Strategic Plan is comprised of specific *strategies to achieve strategic goals*. The resulting Strategic Plan includes the four components mentioned above as well as external factors that may affect OFHEO's regulation of the Enterprises.

Annual Performance Plan

The FY 2000 Annual Performance Plan describes what OFHEO will do in FY 2000 with the resources requested to achieve the goals and objectives described in the Strategic Plan. There are three major components to OFHEO's Annual Performance Plan: (1) strategic objectives which

link to the Strategic Plan, (2) performance goals and (3) means and strategies which contain output goals and measures.

The *strategic objectives* and measures included in OFHEO's Strategic Plan are the starting point in the FY 2000 Annual Performance Plan. They provide a valuable link between the Strategic and Annual Performance Plans and help ensure that strategic goals and objectives as well as the resulting strategies, inputs, outputs, and outcomes are sufficiently integrated and tie into the mission.

The *performance goals* in the Annual Performance Plan link directly to each strategic objective included in OFHEO's Strategic Plan. The performance goals were chosen because they are intermediate outcomes or outputs necessary to achieve the strategic objectives which, in turn, lead to the accomplishment of a corresponding strategic goal. The Annual Performance Plan only includes those performance goals that OFHEO expects to achieve during FY 2000. In many cases, these represent incremental progress toward achieving the strategic objectives and goals. Their achievement also depends on OFHEO's achieving its FY 1999 performance goals.

The third major component of the Annual Performance Plan consists of *means and strategies* and the associated *output goals and measures*. These are the key activities and actions that lead to the attainment of each performance goal. Although there are many other outputs and activities which occur during the process of achieving a given performance goal, the output goals and measures included in the Annual Performance Plan are the best indicators to OFHEO management that the Office is making progress to achieve its performance goals. As part of the means and strategies section, a narrative is provided that describes the linkages between the performance goal and strategic objective, the significance of the goal and, where significant, the processes and technologies used.

As required by the Government Performance and Results Act of 1993, OFHEO will submit a performance report for FY 2000 by March 31, 2001, to discuss the Office's actual performance as compared with the FY 2000 Annual Performance Plan. During the operating year, OFHEO will evaluate its performance internally, make appropriate adjustments, and continue to analyze and reallocate its budgetary resources in a manner which will enable the Office to achieve its annual performance goals.

Program Evaluations

OFHEO regularly evaluates its programs and progress towards achieving its goals in an ongoing manner throughout the year. The Office utilizes regular management meetings as well as management reports to communicate and discuss organizational goals and objectives, and the status of activities which further their achievement. OFHEO management also uses the budget formulation and execution processes as opportunities to determine resource needs and reallocate Office resources to meet its strategic goals. In its review, OFHEO uses cost-effectiveness as one of the primary criteria for determining the overall effectiveness in the achievement of the Office's mission.

With respect to external evaluations, OFHEO's enabling statute requires the General Accounting Office (GAO) to conduct two audits of OFHEO's operations. GAO's first audit was conducted during FY 1995 and focused on OFHEO's development and implementation of its primary management systems. In its report, GAO concluded that OFHEO had made significant progress in establishing such systems and that the Office had initiated its primary mission-related programs -- assessing the capital adequacy of the Enterprises and conducting examinations of Enterprise operations. OFHEO has used this report to complement internal evaluations of its operations.

GAO's second audit was conducted in the summer of 1997 with the final report released in October 1997. This report focused on (1) identifying the reasons why OFHEO has not issued final risk-based capital standards for the Enterprises, and (2) assessing OFHEO's implementation of its safety and soundness examination responsibilities. GAO correctly identified the challenges OFHEO faces in completing the stress test. The major reason GAO cited for the delay was OFHEO's decision to develop its own modeling capabilities to implement the stress test. OFHEO has developed a Financial Simulation Model that is used to implement the stress test in the proposed risk-based capital regulation that has been drafted. OFHEO believes that it is necessary to independently evaluate the Enterprises' risks.

GAO also recommended that OFHEO move toward a more timely examination cycle, while suggesting that additional resources would be needed to accomplish this. OFHEO agreed with GAO's recommendation and had already planned to alter its examination cycle. Beginning in January 1998, OFHEO moved to a comprehensive risk-based annual examination and expects to deliver its first report of examination to the boards of directors of the Enterprises in February, 1999. Additional resources were allocated to the examination program to ensure that this could be accomplished.

In July, 1998, GAO followed up on OFHEO's progress in implementing their recommendations. Their letter noted that OFHEO had largely completed the development of the stress test but faced three significant challenges. First, OFHEO lost key senior staff in 1998, which GAO noted could delay the proposed rule's development. Second, the proposed plan to provide technical details to federal agency staff to facilitate the inter-agency clearance process was cancelled by OMB, which could lengthen the time it takes for OMB approval. Third, because Financial Simulation Model and the stress test are complex, the public comment process may be lengthened.

OFHEO agreed that the Office faced significant challenges. GAO recognized that OFHEO was addressing these first two immediately by distributing the responsibilities of the departing officials to the existing OFHEO staff and contractor personnel as appropriate, advertising vacant positions, and working informally during the summer of 1998 with Treasury and HUD staff to explain the technical components of the stress test.

GAO also found that OFHEO made progress in implementing a revised financial safety and soundness examinations program for the Enterprises.

Verification and Validation

The Office is systematically monitoring and tracking progress in achieving its performance goals. OFHEO will maintain information, as described in the performance measures themselves, so that the Office's performance can be validated.

OFHEO's FY 2000 Budget

To provide the depth and expertise necessary to accomplish OFHEO's mission and maintain OFHEO's effectiveness as a regulator, for FY 2000, OFHEO requested \$19.5 million. The requested level was enacted. This increase of 22 percent over the FY 1999 budget of \$16 million includes \$2 million to complete development of the Data Warehouse (the central repository of Enterprise data) and the surveillance and monitoring component of the examinations program. The Data Warehouse and surveillance and monitoring system are fundamental means and strategies to achieve OFHEO's FY 2000 performance goals and are intrinsic parts of the risk-based capital stress test and the annual risk-based examinations program. Now that OFHEO has completed a draft of the risk-based capital regulation and implemented an annual risk-based examination process, the Office is in a position to identify the type and amount of support needed on an ongoing basis.

The mortgage finance environment is dynamic, and the Enterprises' activities continue to grow in complexity. In FY 2000, OFFHEO will proceed effectively with all facets of the regulatory agenda provided by Congress. These include financial safety and soundness examinations of the Enterprises; ongoing development and implementation of the risk-based capital standard and associated rulemaking; and other financial, analytical and policy tools required for effective regulatory oversight. In performing its various regulatory functions, OFHEO uses cross-organizational teams comprised of staff members from various OFHEO offices, depending on the nature and complexity of the task. Thus, it is difficult to directly link OFHEO resource levels to specific performance goals as we describe our means and strategies.

Internal Management and Administrative Support to Achieve Performance Goals

OFHEO's success in achieving its performance goals depends on the effective management of its resources and seamless financial and administrative support functions. As a small office, OFHEO relies on staff and management to accomplish its goals through matrix management of cross-organizational teams, timely information for decision-making, and coordination.

OFHEO's staff are its most valuable resources. The Office relies on those with cutting-edge professional skills and a breadth and depth of knowledge in their fields. Their technical competence, effective teamwork and focused performance are crucial to OFHEO's achieving its goals. OFHEO will continue to attract and maintain a high performance workforce.

OFHEO also depends on maintaining information technologies that are effective, and comparable to those used by other organizations with similar analytical requirements. Without these technologies, OFHEO would not be able to provide independent analysis of safety and soundness issues to accomplish its mission.

The use of information technology is an integral part of our mission and of the operation of the Enterprises that we regulate. In order to provide leadership for effective information technology resources office-wide, OFHEO will hire a senior Chief Information Officer to ensure that OFHEO's technological framework will continue to be an asset in maximizing our regulatory effectiveness. The Office will continue to implement cost-effective opportunities to improve the efficiency of the research database (Data Warehouse) and applications software for use in the risk-based capital standard and surveillance and monitoring in the examination program. During the beginning of FY 2000, OFHEO will complete verification of all systems to ensure that they are year 2000 compliant and will continue to monitor compliance by cross-servicing providers and will implement contingency plans if necessary.

Staff performance appraisals and merit pay increases will continue to reflect the accomplishment of OFHEO's performance goals. Staff will become knowledgeable of the OFHEO FY 2000 Performance Plan, and their own role in achieving the goals. Through the Performance Evaluation Management System, achievement of the Plans will be reflected in the performance standards upon which evaluations are based.

OFHEO will continue to invest in staff through skill-based training. Staff will keep current on up-to-date trends and maintain a skill level of excellence through training, working with other financial regulators to observe large financial institutions, and by participating in regulatory and professional forums.

During FY 2000, OFHEO will continue using the systems in place to monitor actual performance against the Performance Plan. Because OFHEO's appropriation is for a single account, and management has access to real time budget information, management will be able to redirect resources timely, if necessary, to accomplish our goals.

OFHEO's Mission Statement

OFHEO effectively protects the interests of the American taxpayer and contributes to the strength and vitality of the nation's housing finance system through independent and fair safety and soundness regulation of Fannie Mae and Freddie Mac.

OFHEO has three strategic goals which will enable us to realize our mission.

1. To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.1: To issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.

Strategic Objective 1.2: To require the Enterprises to meet applicable capital standards.

Strategic Objective 1.3: To implement a continuous, risk-based examination of each Enterprise to ensure that each operates in a safe and sound manner.

Strategic Objective 1.4: To ensure that the Enterprises adequately address examination recommendations.

Strategic Objective 1.5: To ensure that future changes in risk do not impair the ability of the Enterprises to perform their missions in a safe and sound manner.

2. To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

Strategic Objective 2.1: To maintain OFHEO's independence in its relationships with the Enterprises.

Strategic Objective 2.2: To ensure a balanced approach to regulation by providing the Enterprises and all other stakeholders the appropriate opportunity for input on regulatory activities.

3. To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

Strategic Objective 3.1: To prohibit excessive executive compensation at the Enterprises.

Strategic Objective 3.2: To prohibit the Enterprises from violating other provisions of their Charter Acts or of OFHEO's statute.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

The statutory duty of the Director of OFHEO is to “ensure that the Enterprises are adequately capitalized and operating safely.” OFHEO was given two primary regulatory tools to accomplish these statutory responsibilities. The first is the authority to develop and enforce capital standards for the Enterprises. In FY 2000, OFHEO will be finalizing the risk-based capital standard which is expected to be the binding capital requirement for the Enterprises. The second regulatory tool is the authority to conduct on-site safety and soundness examinations of the Enterprises’ operations. In FY 2000, OFHEO will be finishing its second annual (calendar year (CY) 1999) comprehensive risk-based examination of the Enterprises and will be working on its CY 2000 examination. Capital standards and examinations are mutually reinforcing and complimentary tools. Information and findings from one become integrated with the other in an iterative process. OFHEO has identified five strategic objectives with supporting performance goals for FY 2000 that will enable the Office to reach this strategic goal.

Strategic Objective 1.1: To issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.

Measure: Promulgation of risk-based capital regulation.

Performance Goal 1.1(a): To maximize the understanding of the proposed risk-based capital regulation and public participation in the rulemaking process.

Performance Measure: Number of entities or individuals commenting on the NPR.

Target: Greater than 18 (number that commented on OFHEO’s first NPR on risk-based capital).

Means and Strategies: Output Goals and Performance Goal Explanation (1.1(a))

1. Close public comment period.

Output Measure: Public Comment Period Closing Date.

Target: March 10, 2000.

Explanation: After the NPR was published in the Federal Register in April 1999, OFHEO responded to many inquiries about the NPR, disseminated supplementary information on its website, and published notice of the electronic dissemination in the Federal Register. Because this is an important and complex regulation that will affect

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.1 **To issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.**

Measure: Promulgation of risk-based capital regulation.

how the mortgage industry views the relationship between risk and capital, OFHEO extended the comment period twice after considering the requests from several commenters. These extensions, which lengthened the original four month comment period to eleven months, will provide ample opportunity for all interested parties to analyze the proposal and submit their comments so that OFHEO can move toward implementation of the final rule.

The FY 2000 Performance Plan that accompanied OFHEO's budget request anticipated that the comment period on the NPR would have closed during FY 1999. Because the comment period was extended in response to several requests, this revision of the FY 2000 Performance Plan incorporates the related FY 1999 Performance Goals that were necessarily postponed to FY 2000. Similarly, the performance goals originally incorporated in the FY 2000 Performance Plan submitted in February 1999, including the goal to publish the rule in July 2000, must be postponed.

During FY 1999, after making presentations to interested groups about the risk-based capital regulation, OFHEO responded to requests for information needed to better understand and comment on the proposed rule. OFHEO is continuing this practice during FY 2000, including using the OFHEO website and the Federal Register when appropriate.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.1 **To issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.**

Measure: Promulgation of risk-based capital regulation.

Performance Goal 1.1(b): **To review public comments on NPR1 and NPR2 and formulate a plan to publish a final risk-based capital regulation.**

Performance Measure: A post-comment period plan to publish final risk-based capital regulation.

Target: Three months after comment period ends.

Means and Strategies: Output Goals and Performance Goal Explanation (1.1(b))

After the comment period closes, OFHEO will begin analyzing the comments. Based on the sophisticated questions asked by interested parties during the comment period, OFHEO anticipates receiving a high volume of complex and significant comments from a variety of entities. Once OFHEO reviews these comments, the Office can develop a plan leading to the publication of the final risk-based capital regulation. As part of OFHEO's periodic Congressional briefings, OFHEO will share this plan with the Congress.

Performance Goal 1.1(c): **To streamline the risk-based capital calculation process.**

Performance Measure: Reduce time from receipt of Enterprise data to calculation of risk-based capital requirement.

Target: Reduction of 50% from benchmark calculated at the end of FY 1998.

Means and Strategies: Output Goals and Performance Goal Explanation (1.1(c))

- 1. Complete development of the data warehouse structures necessary to operationalize the stress test.*

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.1 **To issue and implement the risk-based capital requirements to ensure that the Enterprises are adequately capitalized.**

Measure: Promulgation of risk-based capital regulation.

Output Measure: Operationalize the data preparation process.
Target: September 2000.

Explanation: The Data Warehouse is the repository for Enterprise data used by the Financial Simulation Model for the risk-based capital stress test and for the surveillance and monitoring component of the examinations program. During FY 1999, OFHEO completed the standardization of data for single-family whole loans and multifamily whole loans in the Data Warehouse. During FY 2000, OFHEO will standardize additional structures in the Data Warehouse, including those for retained mortgage-backed securities, liabilities, derivatives and non-mortgage investments. These improvements are important to operationalize the data preparation process and will allow OFHEO to compute risk-based capital more efficiently. In subsequent years, OFHEO will continue to enhance and update the data structures in the data warehouse to be consistent with evolving Enterprise operations.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.2 **To require the Enterprises to meet applicable capital standards.**

Measure: Comparison of actual capital to required capital on at least a quarterly basis.

Performance Goal 1.2(a):	To require the Enterprises to meet applicable capital standards on at least a quarterly basis.
---------------------------------	---

Performance Measure: Comparison of actual capital to required capital standard on at least a quarterly basis.

Target: Ratio of 1 or greater.

Performance Measure: Percent of time acceptable capital plans are obtained from the Enterprises when standards are not met.

Target: 100 percent.

Means and Strategies: Output Goals and Performance Goal Explanation (1.2(a))

1. Complete quarterly capital classifications within required timeframes.

Output Measure: Classification letters to the Enterprises.

Target: Within timeframes established in OFHEO's capital regulations.

Explanation: For FY 2000, capital classifications will continue to be made using the minimum capital standards, as required by law. Each Enterprise submits information necessary for OFHEO to determine the appropriate capital level for that Enterprise within 30 days after each quarter-end date. OFHEO computes the required capital level for each Enterprise based on its on-balance sheet assets and off-balance sheet obligations, and then compares the required capital level with the actual level held by each Enterprise. An Enterprise is deemed "adequately capitalized" if its actual capital level exceeds the required capital level determined by OFHEO. In accordance with the minimum capital regulation, OFHEO then notifies each Enterprise of its proposed capital classification. The Enterprises have up to 30 days to notify OFHEO of any discrepancies they may have with the classification. Once OFHEO either receives

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.2 **To require the Enterprises to meet applicable capital standards.**

Measure: Comparison of actual capital to required capital on at least a quarterly basis.

notification from the Enterprises that they have no disagreement with the classifications or the 30 days elapse, OFHEO makes final the capital classifications for the Enterprises for that quarter.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.3: To implement a comprehensive, risk-based examination of each Enterprise to ensure that each operates in a safe and sound manner.

Measure: Completion of an annual examination report for each Enterprise which covers all risk areas.

Performance Goal 1.3(a):	To complete a comprehensive, risk-based annual examination for each Enterprise for CY 1999.
---------------------------------	--

Performance Measure: Deliver the CY 1999 report of examination to each Board of Directors.

Target: February 2000.

Means and Strategies: Output Goals and Performance Goal Explanation (1.3(a))

1. Complete field work on 1999 examination.

Output Measure: Completed field work.

Target: December 1999.

Explanation: OFHEO conducts its annual examinations on a calendar year basis. During FY 2000, OFHEO will complete its annual comprehensive risk-based examination of the Enterprises for CY 1999 and will be working on the CY 2000 examination. To ensure effective communication between OFHEO examiners and Enterprise management, OFHEO conducts quarterly meetings with Enterprise management to discuss interim findings, conclusions and recommendations associated with ongoing examination work. Field work on the annual examination is completed in December, and thereafter a Report of Examination is prepared and presented to the Board of Directors of each Enterprise.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.3: To implement a comprehensive, risk-based examination of each Enterprise to ensure that each operates in a safe and sound manner.

Measure: Completion of an annual examination report for each Enterprise which covers all risk areas.

Performance Goal 1.3(b):	To conduct a comprehensive, risk-based annual examination for each Enterprise for CY 2000.
---------------------------------	---

Performance Measure: Develop and communicate CY 2000 examination strategies and objectives to the Enterprises.

Target: January 2000.

Performance Measure: Communicate interim findings and conclusions to each Enterprise.

Target: Following quarter end.

Means and Strategies: Output Goals and Performance Goal Explanation (1.3(b))

Explanation: Based upon ongoing monitoring, tracking and analysis of Enterprise financial data, information obtained during the previous examination, and frequent discussions with Enterprise management, examination strategies and objectives for the CY 2000 examination will be developed and communicated to the Enterprises in January 2000. Examination objectives will reflect OFHEO's assessment of risk at each Enterprise, and will therefore differ for each Enterprise.

OFHEO conducts its annual examination on a calendar year (CY) basis. During FY 2000, OFHEO will finalize its CY 2000 risk-based examination plan for each Enterprise. Also during FY 2000, OFHEO will conduct 75% of the field work for the CY 2000 risk-based examinations. To ensure effective communication between OFHEO examiners and Enterprise management and the Boards of Directors, OFHEO engages in routine meetings to discuss the upcoming examination plan, as well as interim findings and evaluations associated with ongoing examination work.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.3: To implement a comprehensive, risk-based examination of each Enterprise to ensure that each operates in a safe and sound manner.

Measure: Completion of an annual examination report for each Enterprise which covers all risk areas.

Performance Goal 1.3(c):	To conduct surveillance and monitoring, risk assessment, and analysis.
---------------------------------	---

Performance Measure: Prepare and issue surveillance and monitoring reports internally.

Target: At least Quarterly.

Means and Strategies: Output Goals and Performance Goal Explanation (1.3(c))

1. Continue enhancement of surveillance and monitoring applications software.

Output Measure: Enhanced capabilities of the surveillance and monitoring system.

Target: September 2000.

Explanation: OFHEO performs surveillance and monitoring of the Enterprises' business to complement and focus the work performed by examination staff. OFHEO's continued ability to effectively conduct comprehensive, risk-based annual examinations will require the enhancements to the automated surveillance and monitoring system requested in the FY 2000 budget and described below. Surveillance and monitoring includes reviewing publicly available and proprietary financial and non-financial data from the Enterprises and other sources to completely analyze trends and risk-taking activities at the Enterprises and within the market place. OFHEO's Data Warehouse, the repository for Enterprise data, will support important analytical tool for evaluating risks at the Enterprises. The Data Warehouse will be enhanced to provide examiners access to relevant data. A data mart will be created, making data available in a useable format for applications software to run the surveillance and monitoring system. OFHEO plans to consolidate the information

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.3: To implement a comprehensive, risk-based examination of each Enterprise to ensure that each operates in a safe and sound manner.

Measure: Completion of an annual examination report for each Enterprise which covers all risk areas.

obtained to support surveillance and examination monitoring with information obtained from the on-site examination activities and distribute to designated OFHEO staff for comprehensive and timely inclusion in the examination.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.4: To ensure that the Enterprises respond appropriately to examination findings.

Measure: Percent of examination findings identified for follow-up that receive the appropriate dialogue and response.

Performance Goal 1.4(a):	To promote timely responses and corrective measures for findings in the examination that warrant follow-up.
---------------------------------	--

Performance Measure: Percent of examination findings identified for follow-up and discussed in the annual Report of Examination that are not being appropriately addressed.

Target: 0%

Means and Strategies: Output Goals and Performance Goal Explanation (1.4(a))

- 1. Complete transparency of the examination program including an active and timely dialogue, with Enterprise representatives, relating to the examination work and products.***

Output Measure: Percent of issues being considered during the examination which are discussed with the appropriate Enterprise representatives.

Target: 100%

Explanation: OFHEO believes the most effective way to evaluate the safe and sound operations of an Enterprise is to maintain continuous dialogue between OFHEO's examination personnel and the Enterprises. Throughout the annual examination, OFHEO explains its position and seeks input on its findings. Such discussions routinely occur during the examination program. In addition to routine discussions covering the examination work, OFHEO will regularly meet with senior Enterprise representatives to ensure a constructive dialogue is maintained at all levels. Through these regular communications, the Enterprises will be apprised of any developing issues or thinking by OFHEO's examiners at the earliest stage, thus allowing prompt response to any potential concerns, issues, or opportunities identified to enhance the

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.4: To ensure that the Enterprises respond appropriately to examination findings.

Measure: Percent of examination findings identified for follow-up that receive the appropriate dialogue and response.

Enterprise's operations. With OFHEO's continuous on-site examination work, any follow-up initiatives are monitored.

Performance Goal 1.4(b):	To communicate examination conclusions to the Boards of Directors and require their appropriate response, including any directives provided to the Enterprises' management.
---------------------------------	--

Performance Measure: Obtain response from Boards of Directors to conclusions shared in the annual Report of Examination.

Target: Within 30 days of the Board meeting date, subsequent to the issuance of the annual Report of Examination.

Means and Strategies: Output Goals and Performance Goal Explanation (1.4(b))

1. Issue the annual Report of Examination timely.

Output Measure: Issuance of the annual Report of Examination
Target: February 2000

2. Meet with the Board of Directors to discuss the conclusions in the annual Report of Examination.

Output Measure: Meeting with the Board to discuss examination conclusions.
Target: First regularly scheduled Board meeting subsequent to the issuance of the annual Report of Examination.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.4: To ensure that the Enterprises respond appropriately to examination findings.

Measure: Percent of examination findings identified for follow-up that receive the appropriate dialogue and response.

Explanation: OFHEO provides a copy of its annual Report of Examination to the Board of Directors of each Enterprise which covers the conclusions from the annual risk-based examination. Since the annual Report of Examination will be shared with the Board of Directors, the formal response is provided by the Board that includes a summary of any directives given to Enterprise management in response to examination issues.

Performance Goal 1.4(c):	To enhance the effectiveness of communications between OFHEO’s examination staff and Enterprise officials.
---------------------------------	---

Performance Measure: Survey the Enterprises on qualitative aspects of the examination program.

Target: Achieve a “high” performance level for the quality of communications with the examination staff, using the survey’s rating scale.

Means and Strategies: Output Goals and Performance Goal Explanation (1.4(c))

1. Administer survey to the Enterprises.

Output Measure: Completed surveys.
Target: June 2000.

Explanation: To complement ongoing efforts to promote effective and open communication with the Enterprises, OFHEO will continue to administer the survey begun in FY 1999. The purpose of the survey is to solicit qualitative feedback from the Enterprises regarding the effectiveness of the examination program and the quality of communications. OFHEO will continue to evaluate surveys conducted by

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.4: To ensure that the Enterprises respond appropriately to examination findings.

Measure: Percent of examination findings identified for follow-up that receive the appropriate dialogue and response.

other federal regulators, other federal organizations as well as those used by certain private sector entities, as we revise our own survey. Based on FY 1999 experience, OFHEO anticipates receiving the completed surveys from the Enterprises in June, rather than in March, as originally anticipated. This will provide the Enterprises sufficient time to reflect on the full examination cycle.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.5: To ensure that future changes in risk do not impair the ability of the Enterprises to perform their missions in a safe and sound manner.

Measure: Maintenance of ongoing monitoring and evaluation of Enterprise risks and activities through new program reviews, as well as periodic reports and studies.

Performance Goal 1.5(a): To ensure that new programs do not risk significant deterioration of the Enterprises' financial conditions.

Performance Measure: Number of new programs approved which cause significant deterioration of the Enterprises' financial conditions.

Target: Zero.

Means and Strategies: Output Goals and Performance Goal Explanation (1.5(a))

1. Letters from the OFHEO Director to the Secretary of HUD.

Output Measure: Issuance of letters.
Target: Within 45 days of program request.

Explanation: The HUD Secretary has the authority to approve new programs in which the Enterprises wish to engage. Until OFHEO's risk-based capital standard is in place, OFHEO has the statutory responsibility to examine new programs for safety and soundness considerations. Specifically, if the Director determines that a new program would risk significant deterioration of the financial condition of an Enterprise, this determination would serve as a basis for the HUD Secretary to disapprove the program. OFHEO and HUD have developed a good working relationship in examining issues surrounding new program requests from the Enterprises.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.5: To ensure that future changes in risk do not impair the ability of the Enterprises to perform their missions in a safe and sound manner.

Measure: Maintenance of ongoing monitoring and evaluation of Enterprise risks and activities through new program reviews, as well as periodic reports and studies.

Performance Goal 1.5(b): To ensure that OFHEO is knowledgeable of all the relevant risks for safety and soundness that impact the Enterprises.

Performance Measure: In depth profiles for Enterprises that incorporate a comprehensive assessment of the risks (both from the business operations and the external operating environment) that pose a potential concern for financial safety and soundness.

Target: Quarterly.

Means and Strategies: Output Goals and Performance Goal Explanation (1.5(b))

1. In depth profiles – Overall assessment of the risk environment confronting the Enterprises that draws from the work conducted across OFHEO.

Output Measure: Risk assessments and examination findings.
Target: Quarterly.

Output Measure: Capital assessments.
Target: Quarterly.

Output Measure: Production of OFHEO House Price Index (HPI).
Target: Quarterly.

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

Strategic Objective 1.5: To ensure that future changes in risk do not impair the ability of the Enterprises to perform their missions in a safe and sound manner.

Measure: Maintenance of ongoing monitoring and evaluation of Enterprise risks and activities through new program reviews, as well as periodic reports and studies.

2. Annual Report to Congress.

Output Measure: Production of Annual Report to Congress.
Target: By June 15, 2000.

3. Internal and external papers and reports.

Output Measure: Production of papers and reports on relevant issues.
Target: 3 per quarter.

Explanation: In support of OFHEO's regulatory and supervisory authority and its specific authorities to conduct examinations and develop and implement capital regulations, OFHEO has established a sophisticated economic, financial and policy research capability. The ability to conduct such research allows the Office to maintain its independence in the evaluation of technical questions related to the safety and soundness of the Enterprises. Congress recognized the need for OFHEO to develop its own research capability by explicitly authorizing the Director to conduct research and financial analysis, and requiring the Enterprises to provide the necessary data.

In FY 2000, OFHEO will continue to explore the application of its research in credit scoring and Enterprise purchases of subprime mortgages to the stress test, and will pursue research in other priority areas that OFHEO identifies as relevant to the safety and soundness of the Enterprises. The development and exchange of analysis and findings from examinations, capital assessments and ongoing monitoring and research among OFHEO staff and management ensure that OFHEO remains knowledgeable of the risks that face the Enterprises.

Strategic Goal 2: To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

OFHEO continues to evolve in its relationships with the Enterprises and Congress, as well as relevant interest groups. In order for OFHEO to be effective at regulating the Enterprises, it is important that OFHEO be viewed as providing independent and balanced regulatory oversight. Fairness translates into providing an opportunity for all interested parties to comment on OFHEO's regulatory actions. Independent analysis of regulatory issues provides credibility to the actions taken by OFHEO and ensures that all points of view are examined. OFHEO has identified two strategic objectives with supporting FY 2000 performance goals that will enable the Office to reach this strategic goal.

Strategic Objective 2.1: To maintain OFHEO's independence in its relationships with the Enterprises.

Measure: Use of internal modeling capacity to regularly analyze Enterprise risks. Participation in examination activities with other financial regulators.

Performance Goal 2.1(a): To use internal modeling and analytic capacity to regularly analyze Enterprise risks.

Performance Measure: Use the Financial Simulation Model to assist OFHEO in developing risk profiles for the Enterprises.

Target: Run specific simulations on an as needed basis.

Performance Measure: Use Surveillance and Monitoring system to assist OFHEO in analyzing risks for the Enterprises.

Target: Develop Surveillance and Monitoring reports on an as needed basis.

Means, Strategies, and Performance Goal Explanation (2.1(a))

OFHEO's Financial Simulation Model is a model used for simulating Enterprise financial performance under a variety of economic environments, including stressful ones. The Financial Simulation Model is OFHEO's principal tool for developing and

Strategic Goal 2: To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

Strategic Objective 2.1: To maintain OFHEO's independence in its relationships with the Enterprises.

Measure: Use of internal modeling capacity to regularly analyze Enterprise risks. Use of examiners from other financial institution regulatory agencies.

running the stress test. In addition, both as a whole and in its parts, the Financial Simulation Model supports a wide range of research and financial analysis relating to credit and interest rate risk, and performance trends at the Enterprises. As part of OFHEO's ongoing monitoring of the Enterprises, the Financial Simulation Model will be used to assist in evaluating the credit and interest rate risk profiles for each Enterprise, as well as to assist OFHEO in the timely analysis of issues as they arise.

The Surveillance and Monitoring system parallels the risk-focused program areas of OFHEO's examinations. The system generates standardized reports that permit the examination staff to maintain an ongoing virtual presence in all aspects of the Enterprises' business activities through the review of objective risk-related data. The system also facilitates customized analysis of specific Enterprise business activities, on an as needed basis, through query capabilities and analytical tools.

OFHEO's Research Systems Environment is used to support the operation of both the Financial Simulation Model and the Surveillance and Monitoring system. It provides the necessary computer hardware, software and other systems necessary to support the Financial Simulation Model, the Data Warehouse and the Surveillance and Monitoring system. To develop and maintain the Financial Simulation Model and the Surveillance and Monitoring system, OFHEO uses a mix of in-house economists, financial analysts, computer specialists, and contract support. These resources make it possible for OFHEO to regularly and independently analyze the Enterprises' risks with the Surveillance and Monitoring system and by using the Financial Simulation Model separately from its use in the stress test. OFHEO's FY 2000 Budget requests resources for an operational Surveillance and Monitoring system that leverages the investments in the Data Warehouse. To ensure needed depth and institutional capacity, OFHEO's FY 2000 budget also requests additional staff and a reduced reliance on contract support for the Financial Simulation Model and the Data Warehouse.

Strategic Goal 2: To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

Strategic Objective 2.1: To maintain OFHEO's independence in its relationships with the Enterprises.

Measure: Use of internal modeling capacity to regularly analyze Enterprise risks. Use of examiners from other financial institution regulatory agencies.

Performance Goal 2.1(b): To maintain the objectivity of the examinations process, OFHEO examiners will participate in professional development and training programs and in joint projects with other financial regulators and will participate in examination related regulatory forums.
--

Performance Measure: To participate in professional development and training programs and in joint projects with the other financial regulators to broaden examiners' expertise and maintain objectivity.

Target: An average of at least two professional development and training programs or joint projects with other financial regulators per OFHEO examination staff member per year.

Performance Measure: To participate in examination related forums with the other financial regulators.

Target: At least eight.

Means, Strategies, and Performance Goal Explanation (2.1(b))

Maintaining the objectivity and expertise of the examination cadre is a high priority for OFHEO. Examination staff participation in professional development and training programs affords the staff the opportunity to maintain and enhance the knowledge and skills requisite for the examination of large complex financial institutions. Participation in joint projects with the other financial regulators, including detailee assignments, offers OFHEO's examination staff benchmarks for the standards that serve as "best practices" in the examination process. Additionally, OFHEO examiners will participate in relevant interagency forums to remain current

Strategic Goal 2: To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

Strategic Objective 2.1: To maintain OFHEO's independence in its relationships with the Enterprises.

Measure: Use of internal modeling capacity to regularly analyze Enterprise risks. Use of examiners from other financial institution regulatory agencies.

on regulatory issues and developments. These forums include the Federal Financial Institutions Examinations Council (FFIEC) and the new GSE Regulators Examinations Working Group.

Strategic Goal 2: To effectively regulate the Enterprises by providing independent and fair oversight.

Strategic Objective 2.2: To ensure a balanced approach to regulation by providing the Enterprises and all other stakeholders the appropriate opportunity for input on regulatory activities.

Measure: Number of opportunities for public comment on proposed regulations.

Performance Goal 2.2(a):	To place all proposed regulations on the OFHEO website to enhance opportunities for input.
---------------------------------	---

Performance Measure: Percent of proposed regulations issued placed on website within two weeks of publication in the Federal Register.

Target: 100 percent.

Means, Strategies, and Performance Goal Explanation (2.2(a))

OFHEO will publish all of its proposed regulations on its web page and solicit comments from interested parties. Such access should broaden the awareness of OFHEO's proposed regulations and provide more opportunities for public input.

Strategic Goal 3: To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

As the safety and soundness regulator for the Enterprises, OFHEO has the responsibility to ensure that they comply with all laws under our jurisdiction. As a result of their government-sponsored status, the Enterprises have been given many benefits that enable them to fulfill their public purpose. OFHEO will work to ensure that the Enterprises' actions and operations comply with the provisions of their Charter Acts and other applicable laws within our jurisdiction. OFHEO has identified two strategic objectives with supporting FY 2000 performance goals that will enable the Office to reach this strategic goal.

Strategic Objective 3.1: To prohibit excessive executive compensation at the Enterprises.

Measure: Percent of executive officer termination agreements acted upon by OFHEO. Percent of instances of excessive executive compensation acted upon by OFHEO.

Performance Goal 3.1(a): To prohibit excessive executive compensation at the Enterprises.

Performance Measure: Percent of instances of excessive executive compensation acted upon by OFHEO.

Target: 100 percent.

Performance Measure: Timely review of termination agreements for Enterprise executives.

Target: Within 90 days of receipt of request and all necessary materials from Enterprise.

Means, Strategies, and Performance Goal Explanation (3.1(a))

OFHEO's statute requires the Director to prohibit the Enterprises from providing excessive compensation to any executive officer. Specifically, the statute provides that compensation must be reasonable and comparable with compensation paid by other similar businesses to executives having similar duties and responsibilities. "Similar businesses" include publicly held financial institutions or major financial services companies. Additionally, the Enterprises' Charter Acts require the Enterprises to obtain prior approval of OFHEO's Director before entering into or changing termination agreements with their executive officers. The Charter Acts

Strategic Goal 3: To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

Strategic Objective 3.1: To prohibit excessive executive compensation at the Enterprises.

Measure: Percent of executive officer termination agreements acted upon by OFHEO. Percent of instances of excessive executive compensation acted upon by OFHEO.

provide that the Director of OFHEO may not approve any such agreement unless the Director determines that the benefits provided under such agreements are comparable to those of officers of other public and private entities involved in financial services and housing interests who have comparable duties and responsibilities.

OFHEO, with the assistance of an executive compensation consulting firm, completed an extensive study of executive compensation at the Enterprises in FY 1998. This study resulted in the identification of a comparable peer group and methodology for tracking and monitoring changes to executive compensation at the Enterprises on an ongoing basis. In FY 2000, OFHEO will continue to monitor changes to executive compensation at the Enterprises to ensure that it is not excessive. OFHEO has also reviewed the Enterprises' policies for termination agreements and severance packages. When an Enterprise enters into or amends a termination agreement with one of its executives, OFHEO will review and act upon that agreement.

Strategic Goal 3: To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

Strategic Objective 3.2: To prohibit the Enterprises from violating other provisions of their Charter Acts or of OFHEO's statute.

Measure: Percent of supervisory actions to remedy Charter Act and other violations that are successful.

Performance Goal 3.2(a): To prohibit the Enterprises from violating other provisions of their Charter Acts or of OFHEO's statute.

Performance Measure: Percent of successful supervisory actions to remedy Charter Act and other violations.

Target: 100 percent.

Means and Strategies: Output Goals and Performance Goal Explanation (3.2(a))

- 1. Analyze activities undertaken by an Enterprise as appropriate to determine whether they violate the Charter Act or provisions of OFHEO's statute.*

Output Measure: Decision paper.

Target: As needed.

- 2. Report on appropriate action (e.g., informal communication, examination recommendation, supervisory agreement, other enforcement action) taken to address the violation and follow up to effect full compliance.*

Output Measure: Annual Enforcement Action Report to Congress.

Target: March 15, 2000.

Explanation: The Director has authority under the Act to take enforcement actions for matters involving the Enterprises' capital levels, safety and soundness, and violations of certain laws and regulations. For matters other than safety and soundness or capital-related issues, the Director's authority to bring an enforcement action is subject to the approval of the HUD Secretary. OFHEO's enforcement powers include traditional enforcement tools such as cease-and-desist orders, supervisory agreements and civil money penalties.

Strategic Goal 3: To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

Strategic Objective 3.2: To prohibit the Enterprises from violating other provisions of their Charter Acts or of OFHEO's statute.

Measure: Percent of supervisory actions to remedy Charter Act and other violations that are successful.

In FY 2000 OFHEO expects to have finalized regulations describing the rules of procedure to implement OFHEO's enforcement authorities. OFHEO will also continue to address issues related to their charter authorities, working with HUD when appropriate. Such issues periodically arise as the Enterprises develop new financial products or engage in new types of activities.