

## FHFA STRATEGIC PLAN 2012-2016

### **MISSION**

*Ensure that the Housing GSEs are safe and sound so that they serve as a reliable source of liquidity and funding for housing finance and community investment.*

### **VISION**

*A reliable, stable, and liquid housing finance system*

### **FHFA's VALUES**

**Respect**

*We strive to act with respect for each other, promote diversity, share information and resources, work together in teams, and collaborate to solve problems even when we disagree.*

**Excellence**

*We aspire to excel in every aspect of our work and to seek better ways to accomplish our mission and goals.*

**Integrity**

*We are committed to the highest ethical and professional standards.*

**Diversity**

*We seek the full inclusion of all segments of our population in our business endeavors and at the entities we regulate.*

## FHFA's STRATEGIC GOALS 2012-2016

### STRATEGIC GOAL 1 SAFE AND SOUND HOUSING GSES

**PERFORMANCE GOAL 1.1:** IDENTIFY RISKS AND REQUIRE TIMELY REMEDIATION OF WEAKNESSES

**PERFORMANCE GOAL 1.2:** IMPROVE THE CONDITION OF THE REGULATED ENTITIES

### STRATEGIC GOAL 2 EFFECTIVE CONSERVATORSHIP OPERATIONS

**PERFORMANCE GOAL 2.1:** MINIMIZE LOSSES ON THE LEGACY PORTFOLIOS AND DISRUPTION TO FINANCIAL MARKETS.

**PERFORMANCE GOAL 2.2:** EXECUTE AN ORDERLY REDUCTION OF THE ENTERPRISES' MORTGAGE PORTFOLIOS AS MARKET CONDITIONS PERMIT

**PERFORMANCE GOAL 2.3:** ENSURE APPROPRIATE UNDERWRITING OF THE ENTERPRISES' NEW BUSINESS

### STRATEGIC GOAL 3 STABILITY, LIQUIDITY, AND ACCESS IN HOUSING FINANCE

**PERFORMANCE GOAL 3.1:** MITIGATE SYSTEMIC RISK AND CONTRIBUTE TO RECOVERY OF HOUSING AND FINANCIAL MARKETS

**PERFORMANCE GOAL 3.2:** ASSURE LIQUIDITY IN MORTGAGE MARKETS

**PERFORMANCE GOAL 3.3:** EXPAND ACCESS TO HOUSING FINANCE BY DIVERSE FINANCIAL INSTITUTIONS AND BORROWERS

**PERFORMANCE GOAL 3.4:** IMPROVE THE CURRENT SYSTEM OF HOUSING FINANCE AND PREPARE FOR THE FUTURE

## **STRATEGIC GOAL 1**

### **SAFE AND SOUND HOUSING GSES**

#### **PERFORMANCE GOAL 1.1: IDENTIFY RISKS AND REQUIRE TIMELY REMEDIATION OF WEAKNESSES**

FHFA, as regulator for Fannie Mae, Freddie Mac (the Enterprises), and, the Federal Home Loan Banks (collectively “Housing GSEs”) is responsible for examining and regulating their operations to promote their safe and sound operations and condition. As a prudential regulator, FHFA must anticipate, identify, and respond appropriately to risks to the regulated entities and ensure the regulated entities effectively manage risks, irrespective of the sources of risk. In identifying risk and evaluating the Housing GSEs’ risk management, FHFA will rely on its full complement of supervisory tools and authorities. FHFA will also monitor corrective action by the regulated entities to remediate weaknesses to ensure any remedy is both timely and effective.

#### **PERFORMANCE GOAL 1.2: IMPROVE THE CONDITION OF THE REGULATED ENTITIES**

The Enterprises have been operating under conservatorship since September 2008. As conservator, FHFA will improve the condition of the Enterprises by restricting new risk-taking, requiring improved underwriting in their new book of business, and preserving and conserving assets from their pre-conservatorship book of business. Certain FHLBanks have been subject to supervisory actions designed to improve risk management and ensure preservation of capital as they deal with troubled real estate related investments, principally dating from 2005-2008. FHFA will continue to require any troubled FHLBanks to preserve capital and to build retained earnings to levels sufficient to support the par value of their capital stock.

### **STRATEGIC GOAL 1- MEANS AND STRATEGIES**

- ***Conduct annual examinations, and, as warranted, special or horizontal reviews of the regulated entities.*** Annual on-site examinations are a critical means to identify operational and financial risks that could threaten the safety and soundness of the Housing GSEs. FHFA examiners use a risk-based approach designed to 1) identify existing and potential risks that could adversely affect the regulated entity; 2) evaluate the overall integrity and effectiveness of each entities’ risk management systems and controls; and 3) determine compliance with

laws and regulations. FHFA will periodically conduct focused reviews on specific programs or issues, known as “horizontal reviews,” of the Enterprises or the FHLBanks.

- ***Identify matters requiring attention of the boards of directors of the regulated entities and monitor their remediation for both timeliness and efficacy.*** Timely resolution of issues that threaten the financial and operational condition of the housing GSEs is essential to their safety and soundness. FHFA’s full complement of supervisory programs includes on-site examinations; program reviews over a cross-section of entities (horizontal reviews); regulatory and supervisory guidance; performance monitoring; supervisory compliance and enforcement; market surveillance; and, when appropriate, supervisory or enforcement actions. Through these means, FHFA will identify issues that could compromise the safe and sound operations of the Housing GSEs. FHFA will communicate findings, recommendations, and any required corrective actions to the regulated entity’s board of directors and management. FHFA examiners will obtain a commitment from the board and management to correct weaknesses or deficiencies in a timely manner and will monitor remediation and verify the effectiveness of corrective actions. When deficiencies are sufficiently severe, FHFA will pursue enforcement actions such as a memorandum of understanding, board resolution, written agreement, or a cease and desist order – as appropriate.
- ***Identify emerging risk areas and adjust supervisory strategies as appropriate.*** The FHFA’s regulated entities may need to operate in markets characterized by uncertainty, volatility, and changing processes and practices. As a prudential regulator, FHFA must respond to changing conditions, ensure the regulated entities identify areas of possible or emerging risk, and adjust its supervisory strategies as appropriate to respond to market developments and identified risks.
- ***Maintain and regularly improve examination standards and procedures.*** As the environment in which the Housing GSEs operate changes and different financial and operational risks arise, FHFA will refine and enhance its examination standards, procedures, and processes in response to market developments and emerging risks.
- ***Use off-site monitoring to strengthen supervision.*** Off-site monitoring and surveillance programs supplement and support on-site examinations with cross-disciplinary resources that can lead to a more comprehensive understanding of a problem by systematically and simultaneously evaluating data across an array of institutions and thereby expanding options considered for problem resolution. The full complement of FHFA’s supervisory staff includes examiners, financial analysts, policy analysts, accountants, and economists. Off-site analyses include reviews of monthly and quarterly call report data, daily changes in interest rates and rate spreads, and published financial reports. The analyses address such issues as financial market conditions, interest rate changes and their effects on the regulated

entities, financial condition, management of troubled real estate assets, executive compensation, and the disclosures in financial statements and reports filed with the Securities and Exchange Commission. Through off-site monitoring systems, FHFA will perform ongoing monitoring of financial trends and emerging risks with a potential to impact the safety and soundness of the Housing GSEs.

- ***Develop regulatory policies and supervisory guidance to improve the Housing GSEs' risk management, governance, pricing, and asset quality.*** As a result of recent legislation, including the Housing and Economic Recovery Act of 2008 (HERA) and the Dodd-Frank Act of 2010 (Dodd-Frank), FHFA has promulgated a series of new or revised regulations and guidance. Some have been finalized, others proposed, and others are still being drafted. In light of changing economic conditions, particularly affecting housing and finance, and market volatility, FHFA will complete required rulemakings and develop additional regulations or guidance, as needed. Regulations and guidance will generally require improvements to the Housing GSEs' risk management practices and governance consistent with prudential management and operating standards. FHFA regulations and guidance also anticipates that the Housing GSEs' policies on asset acquisition, pricing, and retention will be consistent with safe and sound practices and will support housing finance.
- ***Require the Housing GSEs to focus new business on core mission activities.*** During the period leading up to the crisis in the mortgage and financial markets, the Enterprises and some of the FHLBanks acquired mortgage assets and made certain unsecured investments that resulted in charges against income and other risk management challenges. The Enterprises and the FHLBanks each have core mission activities, which have served them well over time. FHFA will expect that an increased share of the regulated entities' new business be concentrated in core mission activities.
- ***Use quality assurance reviews to enhance the effectiveness of supervision.*** FHFA's quality assurance program provides objective assessments of FHFA examinations and supervision practices; identifies potential areas to improve or enhance existing processes; and strives for disciplined and consistent supervisory processes. FHFA will monitor identified areas for improvement, monitor remediation of identified deficiencies, and respond constructively to quality assurance assessments.
- ***Evaluate and monitor compensation and incentives at the regulated entities for adherence to prudential standards.*** FHFA expects the Housing GSEs to adhere to effective practices in corporate governance and defend against inappropriate risk taking. FHFA will supplement its on-site examinations by evaluating the quality of corporate governance at the regulated entities through targeted examinations or horizontal reviews of corporate incentives, as warranted. FHFA will review executive compensation and incentives at the regulated

entities for adherence to prudential standards and compliance with statutory mandates that compensation be reasonable and comparable to similarly-situated institutions.

- ***Strengthen training and development of examination staff.*** FHFA will establish an examiner accreditation program. FHFA will continue to assess the capacity of its supervision staff and examiners, monitor the development and implementation of an examiner accreditation program, supplement any shortfalls in examination capacity, track progress in addressing identified shortfalls, and report its progress in FHFA's annual Report to Congress.



## **STRATEGIC GOAL 2**

### **EFFECTIVE CONSERVATORSHIP OPERATIONS AT THE ENTERPRISES**

#### **PERFORMANCE GOAL 2.1: MINIMIZE LOSSES ON THE LEGACY PORTFOLIOS AND DISRUPTION TO FINANCIAL MARKETS.**

As conservator of the Enterprises, FHFA has a responsibility to take such actions as may be necessary to put the Enterprises in a sound and solvent condition and to preserve and conserve their assets and property. The Enterprises will not be restored to solvency in the foreseeable future. The continued operation of the Enterprises has been made possible by support from the U.S. Department of Treasury (Treasury) through the Senior Preferred Stock Purchase Agreement with FHFA and through two Treasury credit facilities, which are used to purchase the Enterprises' mortgage-backed securities and GSE debt. Controlling further losses to the taxpayer renders the preservation and conservation of Enterprise assets a high priority for FHFA.

To preserve and conserve Enterprise assets, FHFA seeks to minimize losses on the Enterprises' "legacy portfolio," which consists of their respective books of business entered into prior to being placed under conservatorship. The legacy portfolio includes a large volume of mortgages owned or guaranteed by the Enterprises that are delinquent or in foreclosure. To encourage home retention by borrowers and minimize losses to the Enterprises, FHFA will work with the Administration and the Enterprises to keep, to the extent possible, borrowers from defaulting on their loans by working with lenders and servicers to offer prudent loan refinancing and modification programs. In addition, FHFA has determined that many of the mortgages in the legacy portfolio were poorly underwritten and the contracts were in breach of the sellers' representations and warranties to the Enterprises. The enforcement of these contracts is essential to minimizing taxpayer losses and improving underwriting for future transactions. The FHFA will also ensure that the Enterprises pursue enforcement of their existing contracts.

#### **PERFORMANCE GOAL 2.2: EXECUTE AN ORDERLY REDUCTION OF THE ENTERPRISES' MORTGAGE PORTFOLIOS AS MARKET CONDITIONS PERMIT**

Under the terms of the Senior Preferred Stock Purchase Agreements entered into by the FHFA with the Treasury Department in 2008, each GSE's retained mortgage and mortgage-backed securities portfolio shall decline by 10 percent per year until the balance of holdings reaches \$250 billion. The reduction of the Enterprises' retained portfolios has been executed under conditions of significant market uncertainty. Housing markets have been weak, the financial sector cautious, and the national economy has not rebounded as quickly as anticipated. Under

these conditions, FHFA must seek to reduce the portfolio without disruption to market liquidity. FHFA will continue to reduce the risk of additional losses to taxpayers by reducing the Enterprises' portfolio. To ensure an orderly reduction of the portfolio, the pace of the reduction may be moderated by conditions in the housing and financial markets.

### **PERFORMANCE GOAL 2.3: ENSURE APPROPRIATE UNDERWRITING OF THE ENTERPRISES' NEW BUSINESS**

FHFA has taken steps to improve the quality of mortgages purchased by the Enterprises. FHFA precludes the Enterprises from offering new products or engaging in new business activities that would either present unfamiliar risk or divert their resources from their core business and mission. FHFA believes that the Enterprises should move toward a sustainable business model similar to what would be expected of private companies. To achieve this goal, FHFA will establish appropriate underwriting standards and risk-based pricing of guarantee fees. FHFA will also ensure that the new mortgages acquired by the Enterprises are soundly underwritten and priced to provide an appropriate return, encourage market competition, and promote the return of the private capital to the housing markets.

### **STRATEGIC GOAL 2 - MEANS AND STRATEGIES**

- ***Establish Baseline Standards and Targets to Measure the Effectiveness of Modification and Refinancing Initiatives.*** FHFA will establish standards and targets as benchmarks to monitor Enterprise loan modification and refinancing portfolios to ensure that the Enterprises adhere to program standards and that the programs achieve their targets.
- ***Reduce the Enterprises' Legacy Portfolio.*** FHFA will encourage an orderly transition of the Enterprise legacy portfolio through effective loss mitigation programs, monitoring market conditions, and identifying the near-term and long-term impact of the disposition of assets. To ensure an orderly reduction of the portfolio, the pace of the reduction may be moderated by conditions in the housing and financial markets. This strategy is designed to reduce the Enterprise portfolio and provide the best return to the taxpayer while minimizing market disruption. FHFA will also monitor the portfolio for consistency with the requirements of the Senior Preferred Stock Purchase Agreement.
- ***Pursue Cost-Effective Alternatives to the Disposition of Enterprises' REO Portfolios.*** FHFA has been working with the Enterprises to explore alternatives to the past practice of selling real estate owned (REO) properties one at a time. This initiative will be informed by ideas generated through a Request for Information (RFI), issued by FHFA in consultation with the U.S. Department of Housing and Urban Development and the U.S. Department of the Treasury. The RFI solicited views from the public on REO disposition

alternatives, requesting comment on how the Enterprises could improve loss recoveries compared to individual sales, help stabilize neighborhoods, and, where feasible and appropriate, improve the supply of rental housing. As a result of this effort, FHFA plans to develop pilot transactions to test alternatives to individual sales, will evaluate their progress, and would likely use these as a basis for broader programs.

- **Align Guarantee Fees to Risk.** The Enterprises pre-conservatorship guarantee pricing was characterized by cross-subsidization across product types and preferential treatment for loans with certain characteristics. To attract private capital and reduce Enterprise risk exposure, FHFA will direct the Enterprises to price guarantee fees to levels that align pricing with actual risk as if they were being priced in a private, competitive market. FHFA will also evaluate and improve the adequacy of models used to estimate prepayments and set guarantees.
- **Examine Modeling Assumptions.** Modeling assumptions will require continual evaluation and improvement. FHFA will examine Enterprise prepayment and guarantee models and evaluating their adequacy. Examination findings of weaknesses in Enterprise models will be designated as Matters Requiring Attention (MRAs) and the Enterprises will be required to correct the deficiencies.
- **Ensure Appropriate Underwriting of New Business:** FHFA has directed the Enterprises to reduce their risk exposure in their underwriting and product standards. FHFA will continue these efforts and will ensure that the Enterprises enforce the representations and warranties in their contracts with mortgage suppliers.
- **Promote Risk-Sharing.** Risk-sharing between the Enterprises and other market participants can be helpful in providing feedback to the Enterprises' on their guarantee fee pricing. For example, if the market price to absorb a portion of the Enterprises' risk exposure is greater than the price being charged on the guarantee fee, this might be a signal that prices would need to increase to attract private capital. More accurate price discovery would then be established through market competition. FHFA intends to evaluate different options for the Enterprises to share risk among various parties to a transaction.

## **STRATEGIC GOAL 3**

### **STABILITY, LIQUIDITY, AND ACCESS IN HOUSING FINANCE**

#### **PERFORMANCE GOAL 3.1: PROMOTE STABILITY IN HOUSING MARKETS BY MITIGATING SYSTEMIC RISK AND CONTRIBUTING TO THE RECOVERY OF HOUSING AND FINANCIAL MARKETS.**

***Mitigate Systemic Risk.*** The Dodd-Frank Act established the Financial Stability Oversight Council (FSOC) to identify risks to the financial stability of the United States that could arise from the financial distress, failure, or activities, of large financial institutions; to promote market discipline; and to respond to emerging threats to the stability of the nation's financial system. FHFA, as a voting member, will continue to work closely with FSOC and its member agencies to identify emerging risks and mitigate systemic threats to the financial system. FHFA will contribute to market stability through ongoing market surveillance and timely dissemination of information on housing markets.

***Promote Stability in Housing Markets.*** Home retention initiatives, such as loan modification and refinancing programs, could allow eligible borrowers to realize more favorable rates or terms on their mortgages and potentially reduce the scale of defaults and foreclosures. Such initiatives can reduce losses to the Enterprises and can lead to greater stability and liquidity in housing markets. FHFA will be actively engaged in developing prudent home retention programs and foreclosure alternatives including refinements to the Home Affordable Modification Program (HAMP) and Home Affordable Refinancing Program (HARP) that offer troubled homeowners loan modifications, refinancing opportunities or other foreclosure alternatives. A successful home retention program would enhance access to finance by borrowers; reduce risk exposure to the Enterprises, thereby minimizing their losses; and stabilize housing finance. FHFA will also work with the Department of Housing and Urban Development (HUD) and Treasury to consider alternatives in disposing of REO properties owned by the Enterprises and the Federal Housing Administration (FHA) using approaches that are tailored to the needs and economic conditions of local communities.

### **PERFORMANCE GOAL 3.2: ASSURE LIQUIDITY IN MORTGAGE MARKETS**

***Federal Home Loan Banks:*** The FHLBanks' core mission is to serve as a reliable source of liquidity for their member institutions in support of housing finance. The importance of the FHLBanks as a source of liquidity for member financial institutions became evident during the financial credit and liquidity crisis that began in 2007. FHLBank advances to members increased from a pre-crisis level of \$640 billion on June 30, 2007 to an all-time high of \$1.01 trillion on September 30, 2008. Subsequently, liquidity conditions in financial and banking markets changed dramatically as deposits grew at depository institutions while loan demand diminished as a result of weak economic conditions. As a consequence, member use of FHLBank advances fell significantly at each of the FHLBanks. Advances to member institutions declined 60 percent from their peak in September 2008 to \$400 billion in September 2011. FHFA will ensure that the FHLBanks continue to fulfill their statutory mission of providing liquidity to their members.

***The Enterprises:*** Although the Enterprises are under conservatorship, the Enterprises must continue to serve as a reliable source of liquidity for housing finance, principally through their mortgage securitization programs. FHFA's Strategic Plan envisions the Enterprises in conservatorship supporting housing finance, but also anticipates initiatives that contribute to an increase in the role of private sources of capital in housing finance, ultimately diminishing the role of direct and indirect government support. While Fannie Mae and Freddie Mac are in conservatorship FHFA will work with the Department of the Treasury to assure that they continue to provide liquidity to the secondary markets in a manner consistent with the objective of eventually withdrawing government support.

### **PERFORMANCE GOAL 3.3: EXPAND ACCESS TO HOUSING FINANCE BY DIVERSE FINANCIAL INSTITUTIONS AND BORROWERS**

Even in liquid markets, some qualified financial institutions and borrowers may face barriers to finance as a result of imperfect information, insufficient market activity, or inability to attract capital due to their size or area of specialization. Especially during times of market uncertainty, some smaller or niche financial institutions may face disruption in their access to finance. FHFA is committed to assuring that qualified financial intermediaries and other entities have fair and equitable access to finance and to those services offered by the Housing GSEs for which they are eligible. In particular, minority- and women-owned institutions should be included in the activities of the Housing GSEs.

#### **PERFORMANCE GOAL 3.4: IMPROVE THE CURRENT SYSTEM OF HOUSING FINANCE AND PREPARE FOR THE FUTURE**

***Reform the Current System.*** The mortgage and financial crisis revealed many weaknesses throughout the entire chain of single-family mortgage finance. As a result of the housing crisis, the operating environment and roles of housing market participants have changed. Many firms have withdrawn from the market or hesitate to more fully participate. To improve the current system of housing finance and set improved standards for the future, FHFA has introduced a series of initiatives to ensure a safer, more effective, and efficient housing finance system. FHFA expects that these improvements, which include changes to mortgage servicing, servicer compensation, and improved data and transparency, will promote greater confidence among potential market participants and will result in increased liquidity from private sources of capital. In the coming years, FHFA will work toward perfecting these initiatives as market conditions evolve. As described in the following sections, FHFA intends to develop a series of initiatives and strategies that will lead to greater predictability in mortgage markets and, consequently, greater confidence among stakeholders. FHFA expects to evaluate and either adjust or improve upon these initiatives as market conditions change.

***Prepare for the Future.*** The nation's system of housing finance is currently undergoing a period of transition that will require both short-term and long-term reform strategies. There are significant public policy questions and choices ahead on how to achieve an appropriate balance between the role of the private sector and the role of government as housing finance conditions change. As part of the deliberative process, FHFA will examine a variety of options across the housing delivery system with the objective of reducing the Enterprises' role in the secondary mortgage market and facilitating the reentry of the private sector. Toward that end, FHFA will conduct such as activities as developing Enterprise transition plans and evaluating the plans prepared by others; analyzing evolving market conditions; and identifying and recommending initiatives or policies that would lead to an improved system of housing finance. To measure the effectiveness of its strategies, FHFA will continue to improve on its housing information systems. FHFA will actively participate in public policy deliberations on housing finance reform and will be available to serve as a resource to the executive and legislative branches.

**Comment [A1]:**

**Comment [A2]:** wondering if some of this is a bit more activist than Ed indicated in Thursday's testimony??

#### **STRATEGIC GOAL 3 - MEANS AND STRATEGIES**

- ***Collaborate with other federal regulators to identify and address risk and other emerging issues.*** Consistent with the Government Performance and Results Modernization Act of 2010, which requires Federal agencies to develop a coordinated and crosscutting approach to

achieve results, FHFA works closely with other federal regulators, for example, through its participation on the Financial Stability Oversight Council and the Federal Housing Finance Oversight Board. FHFA will work closely with these regulators to identify and address risk and to coordinate, where appropriate, ~~their~~ supervision of entities under their examination and supervision. This collaboration will provide FHFA with additional perspectives on emerging or existing risks that are identified outside of FHFA's own supervisory programs. FHFA will also contribute to the Federal Housing Finance Oversight Board's assessment on the safety and soundness and performance of FHFA's regulated entities in FHFA's *Annual Report to Congress* (12 U.S.C. §4521.)

- ***Monitor Housing Markets.*** FHFA's reports to the Federal Housing Finance Oversight Board and the FSOC and its members will address mortgage and financial market trends that affect the financial condition and performance of the Housing GSEs. To enhance its program for monitoring housing markets, FHFA will work to develop a rigorous housing market information system. At a minimum, FHFA's market reports will include the results from the Monthly Survey of Mortgage Originations pursuant to Section 1125 of HERA, the Housing and Economic Recovery Act.
- ***Enhance Home Retention Programs and Initiatives.*** In the fall of 2011, FHFA launched a series of improvements to the Home Affordable Refinance Program (HARP). ~~The~~ HARP provides an opportunity to refinance their mortgages to those homeowners whose loans are owned by the Enterprises and who are current on their mortgage payments but whose mortgages exceed the value of their homes, limiting their ability to and cannot refinance. FHFA expects to be actively engaged in home retention programs, such as HARP and the Home Affordable Modification Program (HAMP)-as well as any successor programs as well as their successor programs. In addition, FHFA will encourage the Enterprises' to engage in their own proprietary loan modification programs for borrowers who are ineligible under HAMP.
- ***Pursue Cost-Effective Alternatives for the Disposition of the Enterprises' Real-Estate Owned (REO) Portfolios.*** FHFA has been working with the Enterprises to explore alternatives to selling foreclosed individual properties one at a time. This initiative will be informed by ideas generated through FHFA's Request for Information (RFI), issued in August of 2011 and prepared in consultation with the U.S. Department of Housing and Urban Development and the U.S. Department of the Treasury. The RFI requested comment on how the Enterprises could improve loss recoveries compared to individual sales, help stabilize neighborhoods, and, where feasible and appropriate, improve the supply of rental housing. As a result of this effort, FHFA expects to develop one or two pilot transactions to test alternatives to individual sales and will evaluate their progress, and potential to serve plans to use these as a basis for broader programs.

**Comment [A3]:** ?is this the mandated monthly survey that we're not yet doing?

- **Monitor each FHLBank's capital, retained earnings, operations, and debt issuance.** Ensure FHLBanks can continue to provide advances safely and soundly. FHFA will examine the FHLBanks' operations, internal controls, and strategic assumptions and will ensure that there are no unnecessary impediments to their ability to efficiently and competitively provide liquidity for housing markets through normal or stressed markets and during expansion and contraction cycles. In addition, FHFA will assess and monitor the potential impact to the FHLBanks resulting from the revised framework for capital rules and new liquidity requirements under the Basle III accord.
- **Closely oversee Enterprise operations while in conservatorship.** To promote markets stability and ensure liquidity in the secondary markets FHFA will assure that while the Enterprises are under conservatorship they will operate in a safe and sound manner and focus on their core business lines.
- **Ensure Fair and Impartial Access to the Enterprises' Products and Services.** To ensure fair and impartial access to Enterprise products and services, FHFA will require that the Enterprises reverse any unwarranted policies or practices that favor large institutions to the disadvantage of smaller institutions.
- **Foster Fair Access to FHLBank Advances for all Qualified Lenders and Intermediaries.** To ensure fair access to advances among member institutions, FHFA will examine FHLBanks for compliance with regulations requiring that they administer their affairs fairly and impartially and without discrimination in favor or against any member. FHFA analyses will include consideration of:
  - *Community Financial Institutions*
  - *Community Development Financial Institutions*
  - *State Housing Finance Agencies (HFAs)*
- **Monitor Access to Housing Markets.** Using its housing statistics data system, FHFA will produce reports on housing market conditions, identify barriers to mortgage lending and other types of finance and identify options that maximize consumer choice in both rental and homeowner housing, inclusive of lower-income residents.

- **Oversee the Housing GSEs' Affordable Housing Programs.** Under the AHP and CIP, FHLBank member institutions must meet certain standards of community support and provide assistance to first-time homebuyers. As part of its examination program, FHFA will continue to monitor and examine the FHLBank's activities in support of these programs. FHFA will also monitor and enforce Enterprise housing goals. The FHLBanks are also required to meet similar housing goals for their mortgage loan purchase programs. FHFA published a rule implementing the FHLBank goals program (75 FR 81096), which became effective in January of 2011.
- **Ensure Minority and Women Inclusion in the Activities of the Housing GSEs.** Section 1116 of HERA requires FHFA, Fannie Mae, Freddie Mac and the FHLBanks to promote diversity and inclusion of women and minorities in all activities. Pursuant to FHFA's final rule, which became effective on January 27, 2011 (75 FR 248), FHFA will take the following steps: 1) develop diversity standards for employment, management and the business activities of the regulated entities; 2) provide guidance and training; 3) secure status reports in accordance with prescribed formats; 4) develop policies and procedures to assess compliance with the standards; and 5) identify appropriate remedies in the event of non-compliance.
- **Facilitate the Reentry of the Private Sector into Housing Markets.** FHFA believes that reliable price discovery and consumer choice are enhanced by transparent and open competition. FHFA will identify barriers to the entry of a cross-section of market participants and will identify options that encourage their entry into housing markets. FHFA is aware of the competitive advantage that government-supported institutions can potentially have in the marketplace and is committed to monitoring the impact of Enterprise policies and practices so that they do not result in an unfair competitive advantage over the private sector. To monitor private sector involvement in markets, FHFA will track the mortgage market share of private originations and the issuance of mortgage-backed securities. FHFA will also discourage unsound or harmful industry practices that could jeopardize market reentry by responsible market participants.
- **Improve Mortgage Processes:** FHFA intends to fully implement and monitor the following improvements to mortgage processes:
  - **Uniform Mortgage Data Program.** FHFA's Uniform Mortgage Data Program is designed to improve the consistency, quality, and uniformity of data collected at the front end of the mortgage origination process. This data program will reveal potential defects at the front end of the mortgage process, enabling the Enterprises to improve the quality of mortgage purchases, while also reducing the mortgage

**Comment [A4]:** Should we say something about overseeing and enforcing any applicable FHLB housing goals? –sounds odd to give no indication of that, despite its absence of applicability now.

**Comment [A5]:** Do we do all this for the GSEs as well as FHFA?

**Comment [A6]:** I may be overly critical here, but this sounds a bit OTT to me, given the broad understanding that government-connected entities seriously underprice for risk

repurchase risk for originators. FHFA expects to continually evaluate its mortgage data program.

- **Increasedimprove Transparency and Disclosures.** For market participants to make fully informed decisions and to better evaluate and price risk exposure, the underlying terms for critical aspects of a transaction need to be transparent and fully disclosed. Toward this end, FHFA will require the Enterprises to improve their loan-level disclosures from the point when a mortgage is originated until the securities derived from that loan are extinguished. FHFA also intends to ensure the alignment of contracts.
- **Joint Servicing Compensation Initiative.** The Joint Servicing Compensation Initiative seeks to improve compensation structures for servicers to incent timely and appropriate performance in mortgage modifications. In the near-term, the joint initiative should improve service for borrowers, reduce financial risk for servicers, and provide flexibility for guarantors so that they can better manage non-performing loans. In the long-term, this initiative should foster greater standardization of mortgage servicing practices, which will carry forward to a successor system of housing finance. Improved servicer compensation is expected to attract new entrants to this market and thereby enhance competition. FHFA will evaluate alternatives the servicer compensation structures alternatives, with the benefit of industry feedback received in response to our request for for comments, maintaining a servicing platform and will to solicit industry feedback on the appropriate platform. FHFA will periodically evaluate loan servicing practices to assure that they continue to meet the Agency's objectives.
- **Implement the Joint Servicing Alignment Initiative.** The Enterprises are in the process of streamlining and expediting modifications of delinquent or at-risk mortgages. Currently, each Enterprise uses its own servicing standards. Lead by FHFA, the Joint Servicing Alignment Initiative will create parallel and uniform loan modification protocols for servicers, thereby reducing confusion about standards. Alignment of protocols benefits borrowers by preventing simultaneous and conflicting foreclosure and modification processes. FHFA expects to review and, as necessary seek to improve upon these procedures as they are adopted in the marketplace.
- **Contribute to Housing Finance Reform.** The transition to a different system of housing finance is inevitable. To address the nation's housing needs, various parties have developed housing reform proposals for discussion, with. More proposals are likely to come forward and it is likely that their policy recommendations will have varying

**Comment [A7]:** We have a better paragraph on this initiative in a speech or testimony; will find it & send - I'm terrified of moving away from this doc now!

**Comment [A8]:** I think there's also a better paragraph Ed has used on this; will find & send.

**Comment [A9]:** This paragraph doesn't seem to hit the right notes. I think Mario can do a much better job on it; will ask him in the morning

implications for the roles of the Housing GSEs, the federal government, and the private sector. FHFA intends to actively participate in the housing reform debate. To inform the deliberative process and facilitate adoption of assist in the national transition to an improved system of housing finance of the future, FHFA intends to disseminate its own studies and evaluate and comment on research developed by outside parties. FHFA anticipates presenting testimony on the future of housing finance, as requested, and will prepare reports and other communications for consideration by the legislative branch, the executive branch and FHFA's stakeholders.

- **Develop and Analyze Alternative Enterprise Transition Plans.** The post-conservatorship status of the Enterprises will depend on future public policies. As a point of departure, FHFA will ensure that the operations of the Enterprises are supported by standards and processes essential to successful housing finance transactions. In doing so, FHFA expects to increase confidence among market participants. To assist in the policy deliberations on the future of the Enterprises, FHFA will identify and evaluate alternative transition plans and respond to plans proposed by stakeholders.
- **Establish the Future Roles for the FHLBanks.** In identifying future roles for the FHLBanks, FHFA is committed to both preserving and capitalizing on their strengths of the FHLBanks. As liquidity providers with about 8,000 member financial institutions, the FHLBanks are an important source of liquidity in the housing markets and they have nationwide linkages to lenders and their communities. The FHLBanks can serve an important role in coordinating and aggregating resources to deliver to their members. Through their housing and community investment programs, the FHLBanks also have a broad network of community-based institutions. FHFA intends to identify ways the FHLBank System can further the objectives of a safer, more effective and efficient housing finance system that provides broad and inclusive access to finance. As part of the housing reform debate, FHFA intends to evaluate ways in which the FHLBanks can support the transition to a more liquid, safer system of housing finance.

**Comment [A10]:** ?policymakers

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## RESOURCE MANAGEMENT STRATEGIES

Managing FHFA's resources successfully is critical to goal and mission achievement. Strategic Goals and expected outcomes cannot be achieved without prudent and effective management of resources to ensure that the right people, funds, supplies, physical space, and technology are in place. In addition, achievement of FHFA's goals requires collaboration and coordination by all staff and across all offices and divisions within FHFA.

FHFA has developed three resource performance goals that cut across the Agency's strategic goals that will involve staff at all levels across the Agency. These performance goals are intended to provide our examination and mission program staffs with all of the skills, tools, and materials they need in a timely and seamless manner so that they are able to achieve their individual performance goals and, thus, FHFA's strategic goals unimpeded by resource shortfalls.

### **EXPECTATIONS OF EMPLOYEES**

*FHFA expects its employees to conduct themselves consistent with FHFA's values and for every employee to:*

- **Contribute to improving the agency's operations and working environment;**
- **Offer conclusions and solutions supported by analysis that takes into consideration facts, context, and alternate views, free of undue or inappropriate influence; and**
- **Treat each other with courtesy and respect, irrespective of grade or position**

### **ANTICIPATE RESOURCE NEEDS**

Careful and collaborative planning is necessary to ensure that FHFA's Strategic Plan for 2012-2016 is supported and Agency resources are available to support planned activities. FHFA management, technical and program support personnel, and administrative staff will work together to develop long-term workforce, acquisition, and technology plans as well as logistical

plans for space, supplies, and transportation that align with strategic and annual plans. These plans will be modified as necessary to remain relevant in the face of shifting priorities or unanticipated external events and will identify the skills, funding, and all resources necessary to achieve planned FHFA results and specify the timeframes for acquiring the needed resources.

### **ACQUIRE RESOURCES IN A TIMELY AND EFFICIENT MANNER THAT PROMOTES DIVERSITY AND INCLUSION**

FHFA acquires its resources through numerous administrative delivery systems. The recruitment system identifies and hires employees with the necessary skills; the contracting system is in place to purchase the technology, goods and services required for FHFA to get its job done; and the financial and budgeting systems makes sure FHFA has the money to hire people and purchase what it needs and to account for its expenditures. Options exist within these administrative systems that can be used to tailor the acquisition approach to the situation. For example, if timeframes are tight, a very different approach might be taken when the required resource is scarce; or, traditional approaches might need to be altered to be certain all segments of society are included in FHFA's contracting and hiring. FHFA management and administrative staffs will develop and execute the most timely and efficient acquisition strategies that consider all aspects of the resource need, including FHFA's objective to achieve diversity.

### **APPLY CONSISTENT POLICIES AND INTERNAL CONTROLS TO OPERATIONS**

Acquiring the necessary resources to achieve FHFA's goals and mission is costly in terms of time, energy, and money; and, once in place, resources must be managed throughout their life cycles to optimize contributions to achieving FHFA's goals and mission. Defined policies and processes are tools that help managers ensure quality and timeliness through systematic operations as well as equitability in the management of our human resources and contracting efforts. Such policies and processes also help to clarify expectations for employees and contract staff in terms of what their roles and responsibilities are in achieving FHFA's goals and missions and help managers to evaluate progress and results in a consistent manner. FHFA will develop and institutionalize policies and standardize processes to be applied in the course of examination work across the entire agency, and the work and results achieved by FHFA will be evaluated systematically to determine if resources are being utilized most effectively and identify improvement opportunities.

## STRATEGIC PLANNING PROCESS

Strategic Planning is an The FHFA's *Strategic Plan 2012-2016* was developed through an inclusive process iterative on-going process within FHFA. With guidance from the Acting Director, the strategic goals for FHFA's *Strategic Plan 2012-2016* were deliberated during a two-day retreat that included FHFA managers and subject matter experts. An initial draft of the plan was published for comment on FHFA's website over a 30-day period during July of 2011. The posting of the plan, taking into consideration employee and stakeholder comments, was then followed by robust consultation and meetings within FHFA to produce a strategic plan that would enable FHFA to meet the many challenges ahead. Goal achievement will be carried through FHFA's Annual Performance Plans. To monitor progress toward goal achievement, FHFA senior management will meet on a periodic basis to identify obstacles that might prevent a goal from being achieved. In addition, each FHFA employee will have a job performance plan and individual development plan aligned to achieving FHFA's strategic plan objectives.

In February 2011, FHFA began the process to revise and update its Strategic Plan to provide direction and focus in achieving its mission as a result of several legislation actions including the Dodd-Frank Act. The guidance provided in this strategic plan provides a much-needed basis for defining FHFA's current and future roles as conservator. The plan aims to provide the most realistic four-year framework for FHFA focusing on preserving and conserving assets, ensuring market stability and liquidity, and preparing the Enterprises for an uncertain future.

The process began with a review of other agencies' strategic plans as well as working through the newly-established Government Performance and Results Modernization Act of 2010 (GPRM). The strategic goals and performance goals from the FHFA FY 2011 Annual Performance Plan as well as content from several of the Acting Director's speeches were used to provide background and direction for the strategic planning process.

After a large internal reorganization, this four-year Strategic Plan will provide direction and focus to FHFA management and staff. To ensure accountability of managers and staff for goal achievement, FHFA uses a variety of mechanisms to review progress toward achieving annual performance goals outlined in more detail in the Annual Performance Plan. FHFA's senior management meets on a quarterly basis, to discuss any obstacles or issues that would prevent a goal from being achieved. Every FHFA employee's annual job performance plan and individual development plan is aligned in support of the Annual Performance Plan (APP). In addition, FHFA employees are rated annually based on their performance in achieving results that lead to the achievement of the FHFA's goals.

## CONSULTATION AND OUTREACH

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FHFA's management was provided with an opportunity to provide input to the development of this strategic plan. In addition, FHFA requested comment from employees and other stakeholders and the public on the current *FHFA Strategic Plan, 2012-2016*, through a posting on our website over a 30 day period in July 2011. All comments and suggestions were carefully reviewed and incorporated into this updated plan where appropriate.

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