

No.: 93-110  
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FEDERAL HOUSING FINANCE BOARD

Approval of 1994 Operating Measures and Minimum 1994  
Performance Targets for the Federal Home Loan Banks

WHEREAS, the Federal Home Loan Bank Act, as amended, established the Federal Housing Finance Board ("Finance Board") to supervise the Federal Home Loan Banks ("FHLBanks") and to ensure that they carry out their housing finance mission in a safe and sound manner;

WHEREAS, to fulfill these responsibilities, pursuant to 12 C.F.R. Section 934.6, the Finance Board has reviewed and approved the 1994 operating and capital expenditures budgets of the FHLBanks within the context of the strategic framework of System 2000; and

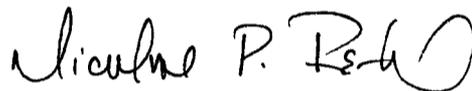
WHEREAS, to evaluate FHLBank budgets and financial performance in accordance, with key goals of System 2000, the Finance Board wishes to establish certain operating guidelines for 1994.

NOW THEREFORE, BE IT RESOLVED:

1. That the Finance Board adopts the following 1994 financial performance measures:
  - o Market presence - defined as mortgage credit products ("MCP") divided by members' mortgage related assets ("MRA").
  - o Profitability - defined as pre-REFCorp ROE, adjusted for earned other income and indexed to a Treasury security with a duration comparable to the Bank's duration of equity.
  - o Community support - defined as average CIP advances.
  - o Item Processing Operating Margin - defined as total item processing revenue minus total item processing operating expenses divided by total item processing revenue.

2. That each district board of directors shall set individual FHLBank performance targets for the measures defined above with the following conditions:
- o That, no individual Bank target for market presence, community support or item processing operating margin, will be set below 1994 projections as set forth in the attached table.
  - o That, no individual Bank profitability target will be set below 1994 budgeted ROE spread over a comparable duration Treasury or 300 basis points over a comparable duration Treasury, whichever is higher, as set forth in the attached table.
  - o That, 1994 individual Bank targets for market presence, profitability, community support and item processing must be submitted by each district board no later than February 28, 1994, for review and approval by the Finance Board.
  - o That, System targets for market presence and community support will be the aggregate of individual Bank targets. No System target will be specified for item processing operating margin since only six Banks offer item processing services.
  - o That, the System target for profitability will be the higher of the 1994 budgeted ROE spread over a comparable duration Treasury or 350 basis points over a comparable duration Treasury, as set forth in Table A.

By the Federal Housing Finance Board



Nicolas P. Retsinas

Federal Home Loan Bank System  
**Minimum 1994 Performance Targets**

	SYS	BOS	NYK	PIT	ATL	CIN	IND	CHI	DSM	DAL	TOP	SFR	SEA
<b>1. Market Presence</b>													
<b>MCP / MRA</b>													
a. 1994 Budget	16.2%	13.8%	16.0%	24.0%	13.9%	10.3%	18.0%	9.3%	22.8%	23.9%	26.4%	15.5%	18.2%
b. 1994 Target Minimum	16.2%	13.8%	16.0%	24.0%	13.9%	10.3%	18.0%	9.3%	22.8%	23.9%	26.4%	15.5%	18.2%
<b>2. Profitability</b>													
<b>Return on Average Equity (Pre-REFCorp)</b>													
a. 1994 Budget	7.86%	6.81%	7.61%	8.26%	8.47%	6.20%	8.56%	8.49%	9.19%	7.80%	7.22%	7.45%	8.95%
b. 1994 ROE "Floor" (300bp over Treas)	--	6.44%	7.16%	7.94%	6.98%	7.80%	6.69%	7.81%	8.24%	6.14%	6.85%	7.81%	7.81%
c. 1994 Budgeted Spread (bp)	343	337	345	332	449	140	487	368	395	466	337	264	414
d. 1994 Target Minimum Spread (bp)	350	337	345	332	449	300	487	368	395	466	337	300	414
<b>3. Community Support</b>													
<b>Average CIP Advances Outstanding (\$Millions)</b>													
a. 1994 Budget	\$3,639	\$365	\$346	\$121	\$390	\$365	\$224	\$191	\$299	\$75	\$90	\$1,000	\$173
b. 1994 Target Minimum	\$3,639	\$365	\$346	\$121	\$390	\$365	\$224	\$191	\$299	\$75	\$90	\$1,000	\$173
<b>4. Item Processing</b>													
<b>Operating Margin</b>													
a. 1994 Budget	17.7%	N/A	N/A	24.3%	23.5%	13.9%	23.4%	N/A	16.8%	N/A	9.2%	N/A	N/A
b. 1994 Target Minimum	--	N/A	N/A	24.3%	23.5%	13.9%	23.4%	N/A	16.8%	N/A	9.2%	N/A	N/A

**Explanations of 1994 Target Minimums:**

1. Market Presence: Individual market presence targets will be set by the district boards, however, no individual target will be set below 1994 budgeted market presence. System market presence target will be the aggregate of individual Bank targets. Market presence is equal to average Mortgage Credit Products ("MCP") divided by Mortgage Related Assets ("MRA"). Average MCP is equal to average advances plus average letters of credit plus average notional principle of interest rate swaps, caps and floors with members plus average Fed Funds sold to members plus average reverse repurchases with members. The average MRA presented is a simple average of MRA data as of 9/30/92, 12/31/92, 3/31/93, 6/30/93 and 9/30/93. The MRA data includes 100% of the MRA of all healthy thrifts, while the MRA data for commercial banks, credit unions and insurance companies are scaled based on membership date.

2. Profitability: Individual Bank ROE targets will be set by district boards, however, no individual ROE target will be set below the 1994 budgeted ROE spread over a comparable duration Treasury or 300 basis points over a comparable duration Treasury security, whichever is higher. System ROE target is the higher of the 1994 budgeted ROE spread over a comparable duration Treasury or 350 basis points over a comparable duration Treasury, whichever is higher.

3. Community Support: Individual Bank average CIP advances targets will be set by the district boards, however, no individual average CIP target will be set below the 1994 budget for CIP advances. System average CIP advances target will be the aggregate of individual Bank targets.

4. Item Processing ("IP") Operating Margin: IP operating margin targets will be set by the district boards, however, no individual IP operating margin target will be set below 1994 budgeted IP operating margin. No System IP operating margin target will be set as only six Banks offer item processing services. IP operating margin is equal to IP revenue divided by IP adjusted net contribution (per 1994 functional area allocation guidelines). IP revenue is equal to the sum of net interest income adjusted to include imputed income and expenses related to compensating balances and non-interest income associated with item processing. IP adjusted net contribution is equal to IP revenue less operating expenses associated with item processing (per 1994 functional area allocation guidelines).

(Numbers may not add to totals, due to rounding.)