Federal Housing Finance Agency

Annual Performance Plan for Fiscal Year 2013

Introduction

The Housing and Economic Recovery Act of 2008 (HERA) established the Federal Housing Finance Agency (FHFA) to oversee the financial safety and soundness and the housing mission compliance of the housing government-sponsored enterprises (GSEs or regulated entities). These are Fannie Mae and Freddie Mac (the Enterprises), the 12 Federal Home Loan Banks (FHLBanks) and the FHLBanks' fiscal agent, the Office of Finance (OF).

The Enterprises were placed in conservatorship in September 2008 and have received $187.5 billion from the public purse. The conservatorships to date have focused on restoring market functions. FHFA views the mandate to restore the Enterprises to a sound and solvent condition as best accomplished not only through aggressive loss mitigation efforts, but also by reducing the risk exposure of the companies.

FHFA's regulatory framework aids safety and soundness that in turn allows the regulated entities to contribute to and maintain liquid and stable housing markets. The Annual Performance Plan (APP) identifies performance goals consistent with that framework along with means and strategies or the key activities, actions, processes, and technologies that FHFA will use in fiscal year 2013 to achieve each performance goal.

The FY 2013 APP supports FHFA's 2013 – 2017 Strategic Plan, which is available to the public on the FHFA website, www.fhfa.gov.

Relationship between the Strategic Plan and the Annual Performance Plan

The Annual Performance Plan (APP) sets out performance measures and targets in support of the goals and objectives in the Strategic Plan.

Strategic Plan

FHFA's Agency Strategic Plan has four major components: (1) mission statement, (2) strategic goals, (3) performance goals, and (4) means and strategies to achieve strategic goals.

FHFA's **mission** is to ensure safety and soundness of the housing GSEs. It emphasizes protecting the taxpayer, contributing to the strength and vitality of the nation's housing finance system, and providing supervision and regulation of the GSEs.

From its **mission statement**, FHFA developed four ***strategic goals*** to accomplish its mission. These strategic goals provide long-term direction to the agency. FHFA further defines its strategic goals with accompanying ***performance goals***. The performance goals represent measurable objectives that FHFA plans to accomplish during the period covered by the Strategic Plan and that represent the agency's progress toward achieving its strategic goals. The final component of FHFA's Strategic Plan is the specific ***means and strategies*** to achieve the strategic goals.

Annual Performance Plan

The FY 2013 Annual Performance Plan describes what FHFA will do during the year to achieve the goals and objectives described in the Strategic Plan. FHFA's Annual Performance Plan has four major components: (1) strategic goals, (2) performance goals, (3) performance measures, and (4) means and strategies to accomplish the goals.

The **strategic goals**, which are outlined in the Strategic Plan, are the starting point in the FY 2013 Annual Performance Plan. They provide the nexus between the

Strategic Plan and Annual Performance Plan and help ensure that performance goals, as well as the resulting strategies, are integrated into the mission.

The **performance goals** in the Annual Performance Plan link directly to each strategic goal in FHFA's Strategic Plan. The FHFA chose these performance goals because they are intermediate outcomes or outputs necessary to achieve the strategic goals.

The **performance measures** and the associated targets are only those measures that FHFA expects to achieve during FY 2013. In many cases, these performance measures represent incremental progress toward achieving the strategic goals. The performance measures are the best indicators to management that FHFA is making progress to achieve its performance goals.

The **means and strategies** are key activities and actions that lead to the attainment of each performance goal.

Relationship between the FHFA Strategic Plan and the Strategic Plan for Enterprise Conservatorships

The Strategic Goal 4 section of this APP largely comes from the *Strategic Plan for Enterprise Conservatorships (SPEC)*, released in February 2012. Other areas of the Plan are highlighted within select measures under Strategic Goal 2 and Strategic Goal 3.

Three broad goals are defined for the SPEC: (1) Build a new infrastructure for the secondary mortgage market; (2) Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations; (3) Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

Our Mission

Ensure that the Housing GSEs operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment

Our Vision

A reliable, stable, and liquid housing finance system

Our Values

Respect: We strive to act with respect for each other, share information and resources, work together in teams, and collaborate to solve problems

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 and to inspiring trust and confidence in our work

Diversity: We seek to promote diversity in our employment and business practices, and those of our regulated entities

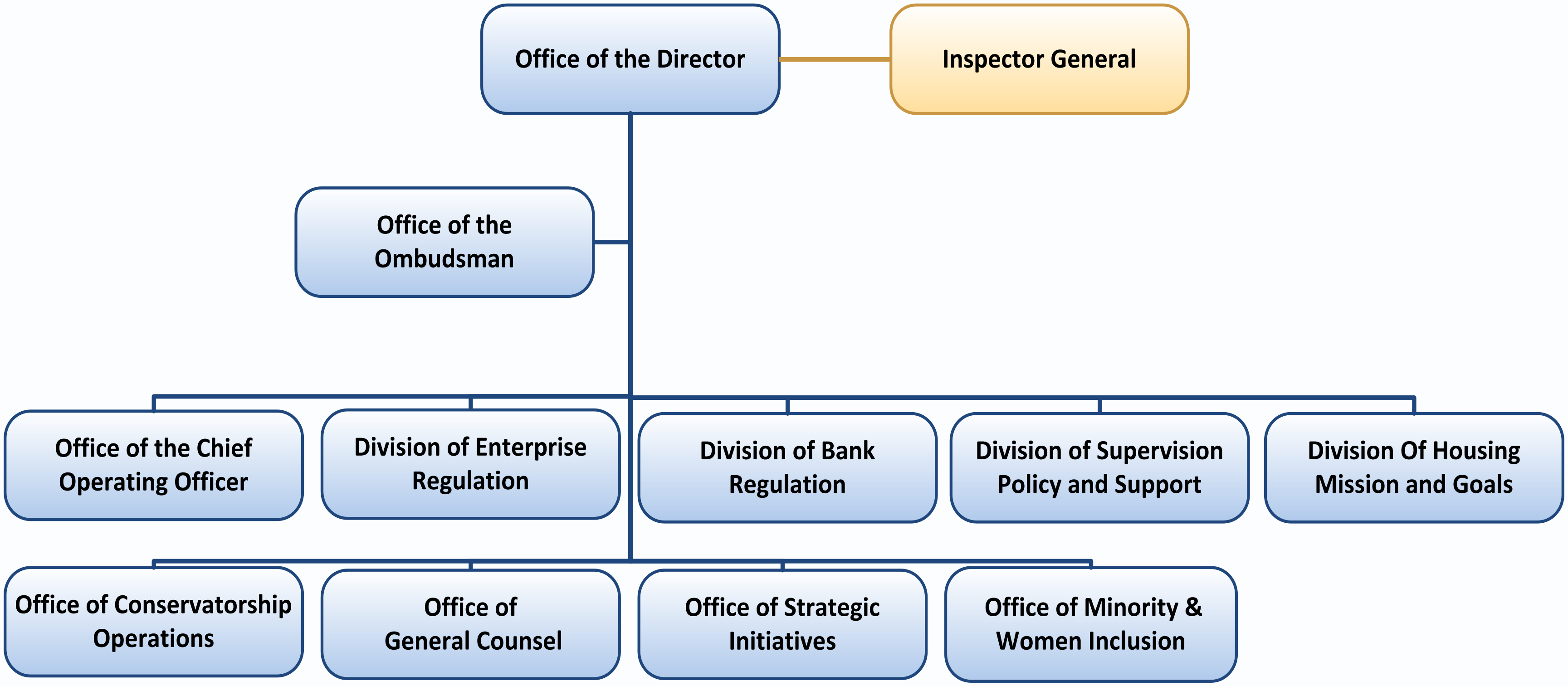
Scope of Responsibilities

FHFA was created to reform the oversight of all the housing-related GSEs – Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (12 Federal Home Loan Banks and the Office of Finance) – by creating a single regulator with bank regulator-like powers and authorities to ensure the GSEs' safety and soundness. HERA accomplished this by combining the Office of Federal Housing Enterprise Oversight, the Federal Housing Finance Board, and the Department of Housing and Urban Development's GSE mission staff.

On September 6, 2008, FHFA used its authorities to place Fannie Mae and Freddie Mac into conservatorship. This was in response to a substantial deterioration in the housing markets that left Fannie Mae and Freddie Mac unable to fulfill their mission without government intervention given their financial condition. A key component of the conservatorships is the commitment of the U.S. Treasury to provide financial support to the Enterprises to enable them to continue to fulfill their mission to provide liquidity and stability to the mortgage market. To date, the U.S. Treasury has provided $187.5 billion in financial support. As conservator for the Enterprises, FHFA's primary responsibility is to conserve and preserve the assets of the Enterprises. Only Congressional action can determine the future post-conservatorship role of the Enterprises, as well as the government's role in the mortgage market.

During FY 2013, FHFA will be operating with a budget of $197.4 million and a staffing level that equates to 610 full-time equivalent employees. FHFA has organized itself to supervise the operations of the housing-related GSEs and to manage the conservatorships of the Enterprises. The agency uses examiners, economists, accountants, and financial and policy analysts to fulfill its responsibilities. FHFA stations examiners at the GSEs to conduct examinations. FHFA's headquarters is located at Constitution Center in Southwest Washington D.C.

Organizational Structure



Overview of FHFA's Strategic and Performance Goals

The FY 2013 Annual Performance Plan details a series of performance goals and measures to support the following four strategic goals:

Strategic Goal 1:	**Performance Goals**	
Safe and sound housing GSEs	1.1	Identify risks and require timely remediation of weaknesses.
	1.2	Improve the condition of the regulated entities.
Strategic Goal 2:	**Performance Goals**	
Stability, Liquidity, and Access in Housing Finance	2.1	Promote stability and mitigate systemic risk that could lead to market instability.
	2.2	Ensure liquidity in mortgage markets.
	2.3	Expand access to housing finance for diverse financial institutions and qualified borrowers.
Strategic Goal 3:	**Performance Goals**	
Preserve and Conserve Enterprise Assets	3.1	Minimize taxpayer losses during the Enterprises' conservatorships.
Strategic Goal 4:	**Performance Goals**	
Prepare for the future of housing finance in the U.S.	4.1	Build a new infrastructure for the secondary mortgage market.
	4.2	Establish standards that promote a safer and more efficient housing finance system.
	4.3	Contract Enterprise operations.

Strategic Goal 1

Safe and Sound Housing GSEs

One of FHFA's statutory duties is to ensure that the GSEs are adequately capitalized and operating safely. As part of our supervision program, FHFA conducts risk-based examinations to assess the risk profiles of the regulated entities, monitors their compliance with laws and regulations, and verifies that they take remedial actions to address identified deficiencies. Through prudential supervision and regulation, FHFA will continue to ensure that the regulated entities operate in a safe and sound manner.

To carry out this responsibility, FHFA will focus on improved GSE risk management by performing targeted examinations that explore areas of concern, pursuing higher-risk issues and by requiring timely remediation of any deficiencies uncovered.

Additionally, FHFA will continue its efforts to increase the effectiveness and efficiency of its supervisory program by developing a common examination program and rating system for the GSEs. FHFA will also implement refinements to improve its examinations and other oversight functions. The refinements will include consolidating core examination activities under the supervision of the Examiners-in-Charge at each of the GSEs and placing examiners on site at Fannie Mae and Freddie Mac.

Performance Goal 1.1 Identify Risks and Require Timely Remediation of Weaknesses			
Measures		Target	Leaders
1.1.1	Develop a written supervisory strategy for each regulated entity that effectively identifies risks and ensures corrective actions are implemented.	Dec 1, 2012	Deputy Directors, Enterprise Regulation and FHLBank Regulation
1.1.2	Percentage of examination findings remediated since the last exam or in accordance with approved remediation plan.	100%	Deputy Directors, Enterprise Regulation and FHLBank Regulation

Overview of Performance Goal 1.1

FHFA conducts risk-based supervision and examinations at the GSEs to ensure they operate in a safe and sound manner. Annually, FHFA develops a supervisory strategy for each of the regulated entities based upon prior supervisory work, and assessment of emerging risks.

Throughout the supervision process, FHFA works with the GSEs to resolve issues as quickly as possible by requiring and monitoring corrective action plans. Findings from supervisory activities are presented to GSE management and/or to their boards of directors with the expectation that they will implement corrective measures acceptable to FHFA.

Through both onsite and offsite activities, supervision staff will monitor risk exposures of the regulated entities and seek to identify emerging risks. FHFA will conduct ongoing reviews of the financial condition and performance of the GSEs, reassessing the risk profile of each entity continuously to focus resources on the areas of most concern. During FY 2013, the agency will continue to monitor emerging risks and ensure that any needed regulatory response is timely.

Means & Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 1.1.

- Continue to incorporate a risk-focused approach to examinations and base examination work on current assessments of risk.
- Hold an interdivisional supervisory planning conference.
- Evaluate risks semi-annually that support the development of the supervisory strategy.
- Establish guidance and protocols for the development of the supervisory strategy for each regulated entity.
- Meet with the regulated entities regularly to discuss and assess remediation efforts for findings.
- Monitor the issuance and remediation of findings and to provide a status of existing findings and remediation actions.
- Develop a common supervision program, examination standards and rating system for the GSEs.

Data Validation and Verification

FHFA meets annually to develop supervisory priorities for each regulated entity. FHFA develops the priorities through analysis of key risks at each GSE. The Examiners-in-Charge write the supervisory strategies and share drafts with key internal stakeholders. The Deputy Director for FHLBank Regulation and the Deputy Director for Enterprise Regulation approve the final supervisory strategy for the applicable GSE.

FHFA formally tracks remediation efforts or matters requiring attention (MRA). When resolved to FHFA satisfaction, the remediation efforts or MRAs are closed and the GSE is notified.

Performance Goal 1.2 Improve the Condition of the Regulated Entities			
Measures		Target	Leaders
1.2.1	Complete guidance on the implementation of the asset classification policy (2012-AB-02, April 9, 2012) and ensure regulated entities establish implementation plans.	June 30, 2013	Deputy Directors, Enterprise Regulation and FHLBank Regulation
1.2.2	Develop five new examination modules to guide examiners in reviewing and assessing the regulated entities.	March 31, 2013	Deputy Director, Division of Supervision Policy and Support
1.2.3	Conduct supervisory review of Enterprise compliance processes for tracking and executing conservatorship directives.	September 30, 2013	Deputy Director, Enterprise Regulation
1.2.4	Increased retained earnings for each FHLBank.	Year-ending September 30, 2013 compared to preceding year	Deputy Director, FHLBank Regulation

Overview of Performance Goal 1.2

FHFA is responsible for assessing and ensuring the safe and sound operations of the regulated entities, including conserving assets of the Enterprises. FHFA issues guidance to the regulated entities, establishes examination procedures to assess risk exposures and controls, and issues directives to cause consistent actions by the regulated entities on regulatory priorities. These tools, used within FHFA's supervisory and conservatorship framework, collectively result in the improved condition of the regulated entities.

During FY 2013, through its supervisory program, FHFA will oversee the financial condition of the FHLBanks and conserve the assets of the Enterprises. The Enterprises will not be permitted to offer new products or enter new lines of business. Their operations will be focused on their existing core businesses and on loss mitigation. FHFA expects that the FHLBanks will focus on their core business of making advances.

Means & Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 1.2:

- Ensure that identified weaknesses are remediated on a timely basis.
- Strengthen the FHLBanks' capital through increased earnings retention.
- Require the GSEs to focus business on core mission activities.
- Use quality assurance reviews to enhance the effectiveness of supervision.
- Develop regulations and supervisory processes to drive improvement in the GSEs' risk management, governance, pricing, and asset quality.
- Review and monitor the regulated entities' implementation plans for the asset classification policy.
- Assign examiners to field-test the new examination modules.
- Develop an objective and scope to assess the Enterprises framework for compliance with the conservatorship directives.

Data Validation and Verification

FHFA will engage with the regulated entities to ensure their understanding of 2012-AB-02, *Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention,* issued by FHFA on April 9, 2012. FHFA will issue written guidance, likely in the format of FAQs, to clarify questions that have arisen relating to the implementation of 2012-AB-02. FHFA will require action plans from the regulated entities with timeframes for implementing the guidance.

FHFA will draft, review, and make available within the Agency new examination modules in the areas of single family mortgage acquisitions and underwriting; single family mortgage securitizations; single family credit loss management; single family real estate owned management; and single family credit risk management. Modules will be made available to examiners via FHFA's automated systems to enable examiners to use the modules in examination work.

FHFA supervision staff will perform examination work related to conservatorship directives, utilizing a list of current directives compiled by conservatorship staff. The supervisory review will be risk-based and will include review of policies, processes and controls in place at the Enterprises that govern compliance with directives issued pursuant to conservatorship authority.

Along with other financial data, data on FHLBank retained earnings will be routinely collected by FHFA by way of its Call Report System.

Strategic Goal 2

Stability, Liquidity and Access in Housing Finance

The GSEs contribute to the smooth operation of the mortgage markets by providing liquidity, stability, and access, and by pursuing affordable housing goals. As regulator, FHFA ensures that the GSEs provide a steady stream of funds for homeownership and affordable housing.

While the housing market has been showing signs of stabilization and some rebound, the number of underwater borrowers remains relatively high. FHFA continues to encourage the Enterprises to pursue assertive foreclosure mitigation activities. These activities not only assist eligible distressed borrowers, but also bring some stability to uncertain markets.

Greater inter-agency cooperation is an important pursuit. FHFA will continue to work closely with the Financial Stability Oversight Council (FSOC) and its member agencies to identify emerging risks and mitigate systemic threats to the financial system through ongoing market surveillance and timely dissemination of information on housing markets.

There are small firms that wish to engage in commercial pursuits with the established financial industry, but struggle to make the requisite connections. To help these firms gain or maintain a foothold, FHFA will develop new initiatives to expand the agency's outreach to insure full access and participation of minority-, women-owned, and other under-represented businesses in the operational activities of both FHFA and the GSEs.

Performance Goal 2.1 Promote stability and mitigate systemic risk that could lead to market instability			
Measures		Target	Leader
2.1.1	Number of refinances successfully completed through Home Affordable Refinance Program (HARP) 2.0.	600,000	Sr. Associate Director, Housing & Regulatory Policy
2.1.2	Number of foreclosure alternatives successfully completed. (Includes loan modifications, short sales, deeds-in-lieu.)	447,000	Sr. Associate Director, Housing & Regulatory Policy
2.1.3	Number of REO dispositions in individual markets to promote recovery via existing and new distribution channels.	353,000	Sr. Associate Director, Housing & Regulatory Policy

Overview of Performance Goal 2.1

FHFA continues to work with the Enterprises and the lending community to find ways to increase the number of homeowners who are able to refinance through the Home Affordable Refinance Program (HARP) by reducing potential impediments in the program, or pursuing foreclosure preventative measures. The two principal tools for assisting homeowners avoid foreclosure are: (1) loan modifications, which allow homeowners an opportunity to retain their home, and (2) foreclosure alternatives such as short sales and deeds-in-lieu of foreclosure, which allow for a less stressful and less costly exit from a home than through foreclosure.

However, some loans will end in foreclosure. To this end, FHFA has given considerable attention to the disposition of real-estate owned (REO). REO buyers stabilize neighborhoods and prices when they rehabilitate distressed and blighted foreclosed assets and enter a fairly liquid rental market.

During 2013, FHFA will further support financial market stability by adopting improved supervision processes that identify emerging risks in financial markets and systemic risks that may affect the regulated entities. Complementary to performance goal 2.2 and to keep the public apprised of anticipated market trends that may affect homeownership rates, FHFA will publish research and analyses that increases transparency of the GSEs' risks and activities. FHFA will collaborate with the FSOC and other Federal agencies and stakeholders to share information concerning mortgage markets, the nation's housing finance system, and regulatory issues.

Means & Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 2.1:

- Actively promote home retention programs and initiatives.
- Support various REO disposition programs for the Enterprises.
- Monitor the success of the enhancement of the Home Affordable Refinance Program (HARP) 2.0. *
- Embrace modification and refinancing initiatives, through refinement and continuous assessment, as needed. *
- Increase the use of short sales, deeds-in-lieu, and deed-for-lease options.*
- Collaborate with other Federal regulators to identify and address risk and other emerging issues including active participation in the Financial Stability Oversight Council.
- Prepare regular market surveillance reports and systematic risk analyses to include identification of external risks to the stability of the regulated entities.
- Identify regulatory and supervisory gaps.
- Identify emerging risks to the GSEs that could potentially result in systemic risk to the financial system.
- Provide information supporting interagency discussions addressing liquidity and stability in housing finance.
- Monitor the regulated entities' use of derivatives.

* Cross-cutting means and strategies that are also applicable under Performance Goal 3.1

Data Validation and Verification

FHFA publishes a *Monthly Refinance Report* releasing data on the number of successfully-completed HARP refinances and a *Foreclosure Prevention Report* that showcases the number of foreclosure prevention alternatives and REO dispositions. These reports are posted on the FHFA website. Some analysts collect data on both the number of Enterprise loans refinanced through HARP, the number of completed foreclosure alternatives, and the number of REO dispositions. The data is reviewed and validated by different analysts to ensure completeness and reliability. In addition, Fannie Mae and Freddie Mac review and validate the data as part of the process of generating the reports.

Performance Goal 2.2 Ensure Liquidity in Mortgage Markets			
Measures		Target	Leaders
2.2.1	Initiate the monthly mortgage market survey.	Q4 FY 2013	Chief Operating Officer
2.2.2	Inform the public through dissemination of FHFA research publications on housing and housing finance markets.	Produce six research publications	Chief Economist

Overview of Performance Goal 2.2

To ensure a reliable source of liquidity in the mortgage market, FHFA will develop initiatives and disseminate information to ensure transparency, clarity and predictability of the regulated entities' operations. In addition to the mortgage market survey, another initiative that FHFA will continue to implement is uniform standards for mortgage data collection and reporting. FHFA will work with the Enterprises to establish standardized terms, data definitions, and industry mortgage data reporting protocols that will enhance the transparency of mortgage risk.

FHFA's policy research and analysis helps to inform interested stakeholders and contributes to effective supervision. FHFA will address emerging issues and external factors affecting the GSEs and the housing finance markets through timely policy analysis and produce research focused on key mortgage market conditions and issues.

Means & Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 2.2:

- Monitor the housing markets.
- Calculate and release a quarterly House Price Index (HPI) and publish this information on FHFA's website.
- Publish conclusions and findings of FHFA's annual examinations of the regulated entities through the Annual Report to Congress.
- Review periodic financial reports prepared by the GSEs before publication.
- Ensure Enterprises maintain secondary market liquidity for new production of purchase money and refinance mortgages.
- Produce reports and analyses on subjects such as house price behavior, loss mitigation, guarantee fees, and housing market conditions.
- Sponsor or Co-sponsor conferences on the following topics:
    - Data for oversight purposes, and
    - Alternative mortgage designs.

Data Validation and Verification

FHFA research publications go through a thorough vetting process, with approval and review from the relevant Associate Director, the Chief Economist, the General Counsel's office, and the Acting Director. There is also an advisory review from the Communications Office and the Office of Housing and Regulatory Policy. This research is made available at the FHFA external website, www.fhfa.gov, with most publications found under the Research tab.

Performance Goal 2.3 Expand Access to Housing Finance for Diverse Financial Institutions And Borrowers			
Measure		Target	Leaders
2.3.1	Reduce variance in single-family guarantee fees charged to lenders that sell large versus small volumes of mortgages to the Enterprises.	Narrowing variance in year-ending June 30, 2013 from preceding year	Chief Economist
2.3.2	Increase number/dollar amount of awards to women and minority owned businesses by FHFA.	Increase from prior year as included in the OMWI 2012 Annual Report to Congress	Associate Director, Minority & Women Inclusion
2.3.3	Increase number /dollar amount of business awarded to women and minority owners by the entities FHFA regulates.	Increase from prior year as included in the Annual Activity Reports submitted by the Regulated Entities Pursuant to 12 CFC 1207.23	Associate Director, Minority & Women Inclusion

Overview of Performance Goal 2.3

Traditionally, the Enterprises have provided pricing discounts to lenders that deliver the largest volumes of loans. FHFA has been working with the Enterprises on a plan to make more uniform the guarantee fees that the Enterprises charge lenders who deliver larger volumes of loans as compared to those who deliver smaller volumes.

FHFA is also responsible for overseeing the homeownership and affordable housing activities of the GSEs. In this capacity, FHFA will foster market access to finance by creating conditions conducive to all segments of the public. The FHLBanks' Affordable Housing Program and Community Investment Program funds will be awarded in compliance with applicable laws and regulations.

Additionally, the agency will monitor the housing GSEs' pursuit of their affordable housing goals.

In its operations and through its responsibility as regulator, FHFA will develop policies and foster practices so that more qualified minorities, women, and small and medium enterprises have inclusive access to capital and opportunities for transacting business with both FHFA and the GSEs.

Means & Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 2.3:

- Reduce subsidization of relatively risky loans by those with less risk.
- Ensure the policies and practices of regulated entities provide fair and equitable access to finance and financial services for all eligible financial institutions and qualified borrowers.
- Oversee the FHLBanks' Affordable Housing Programs.
- Expand "loans to facilitate" programs for small investors.
- Establish alliances with minority business organizations to facilitate broader inclusion in the housing finance market.
- Conduct a thorough analysis of spending patterns of the Agency and the entities it regulates to identify areas to increase usage of minority and women owned, and other under-represented businesses.
- Develop new initiatives to expand outreach to ensure inclusive access and participation in the business activities of the Agency, the Enterprises, the FHLBanks, and the Office of Finance.
- Develop examination guidance for use by FHFA staff to assess the regulated entities' compliance with the diversity and inclusion standards.
- Provide clear guidance to the FHFA's regulated entities regarding expectations for compliance with diversity and inclusion contracting standards.
- Solicit a diverse mix of firms as part of the acquisition strategy where practical.
- Consider women-owned business set asides and Section 8(a) set asides for contract awards as appropriate and authorized by law.

Data Validation and Verification

FHFA gathers relevant guarantee-fee (g-fee) data from the Enterprises on a monthly basis and is able to validate the reduction in the g-fee variance between the large and small volume lenders. FHFA also writes an annual report to Congress that discusses the yearly changes in g-fees.

Contracting data is collected manually, compared to Central Contractor Registration (CCR) data, and reviewed by a contracting officer for accuracy and completeness. The monthly transactions are maintained in Prism - a purchase requisition system - and logged in an Excel database of contracting actions. FHFA will analyze contracting action data by category, including woman-owned and minority-owned businesses annually to evaluate executed actions compared to the prior year. The regulated entities are responsible for reporting their annual contracting activity. FHFA staff members review and evaluate the report submissions for compliance with regulations (Part 12 CFR 1207) and compare yearly performance.

Strategic Goal 3

Preserve and Conserve Enterprise Assets

The conservatorships of the Enterprises were initiated to provide near-term stability to the mortgage market and to give policymakers an opportunity to evaluate the role of the government in housing finance. Currently, the Federal government provides support for over 90 percent of new mortgage originations, a level of involvement that should not be maintained.

As debate over the future of the housing finance system progresses, FHFA will continue to meet the goals of the conservatorships, which include retaining value in the Enterprises' business operations and maintaining their support for the housing market.

FHFA will continue to collaborate with the Administration and Congress, industry participants, and other financial regulatory agencies to promote standards and develop conditions conducive to a stable future system of housing finance.

Performance Goal 3.1 Minimize taxpayer losses during the Enterprises' conservatorships			
Measures		**Target**	**Leaders**
3.1.1	Reduce cross-subsidization in Enterprise single-family guarantee fees.	Year-ending June 30, 2013 compared to preceding year	Chief Economist
3.1.2	Undertake and defend legal actions that recover upon losses or seek to avoid liability to the GSEs.	Pursue legal actions where available and cost effective	General Counsel
3.1.3	Reduce the amount of current outstanding repurchases.	50 percent	Sr. Associate Director, Conservatorship Operations
3.1.4	Reduce the annual percentage of manufacturing defects at loan origination.	From the previous year	Sr. Associate Director, Conservatorship Operations
3.1.5	Reduce the annual net of operational loss events.	5 percent	Sr. Associate Director, Conservatorship Operations

Overview of Performance Goal 3.1

In the past there has been some cross-subsidization in the Enterprises' pricing, whereby lower-risk loans cross-subsidize higher-risk loans. FHFA is collaborating with the Enterprises on a plan to reduce the cross-subsidies from lower-risk loans to higher-risk loans.

The Enterprises' legacy book of business contains the mortgages acquired or guaranteed pre-conservatorship. The Enterprises have faced major challenges stemming from issues related to bad loans during the period of lax underwriting standards. The key risk of this aspect of the business is further credit losses from delinquent mortgages. First, FHFA will continue to pursue recovery of losses from loans where possible. Second, FHFA and the Enterprises' boards of directors, senior management teams, and staff are focused on effective loss mitigation strategies to avoid foreclosure where practical and to minimize further credit losses through loan modifications and other loss mitigation strategies.

The Enterprises should simplify business operations and ensure effective operational risk controls are maintained. FHFA will oversee the development and implementation of enhanced loan delivery processes to ensure loans delivered to the Enterprises at origination comply with contract and underwriting guidelines.

Means & Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 3.1:

- Reduce the Enterprises' legacy portfolio.
- Improve the quality of new mortgage acquisitions.
- Strengthen Enterprise risk management.
- Evaluate and improve the adequacy of models used to estimate prepayment and guarantee fees.
- Establish baseline standards and targets to measure the effectiveness of modification and refinancing initiatives.
- Provide clear expectations to Enterprise boards and management.
- Oversee Enterprise staffing and compensation.
- Monitor the success of the enhancement and implementation of the Home Affordable Refinance Program (HARP) 2.0.*
- Embrace modification and refinancing initiatives through refinement and continuous assessment as needed. *
- Increase the use of short sales, deeds-in-lieu, and deed-for-lease options. *
- Ensure appropriate underwriting of the Enterprises' new business.
- Ensure appropriate standards for mortgage insurer eligibility.
- Align guarantee fees to risk.
- Resolve representation and warranties claims and private-label securities litigation.

Cross-cutting means and strategies that are also applicable under Performance Goal 2.1

- Identify operations or business lines that should be shrunk or eliminated, consistent with other strategic goals.

Data Validation and Verification

FHFA’s General Counsel and litigation team monitor losses to determine whether to pursue legal action.

FHFA’s Office of Policy Analysis & Research gathers relevant g-fee data from the Enterprises on a monthly basis and is able to evaluate the relationship between g-fees charged and measured risk. FHFA also writes an annual report to Congress that discusses the yearly changes in g-fees.

The Office of Conservatorship Operations collects information from the Enterprises’ internal quality assurance reports as well as the 10-Qs and 10-Ks regarding repurchases, manufacturing defects, and operational loss events. FHFA relies upon the Enterprises’ internal controls and processes to validate the data provided to FHFA and the public.

Strategic Goal 4

Prepare for the future of housing finance in the US

Since there seems to be no near-term resolution in sight regarding the future of the Enterprises, FHFA decided to update and extend the goals and directions of the conservatorships in a strategic plan for the conservatorship that was issued in February of 2012. That plan sets forth objectives and steps the FHFA is taking or will take to meet the agency's obligations as conservator and prepare for the future of the Enterprises. Specifically in that plan, FHFA identified three strategic goals for the Enterprises:

- Build a new infrastructure for the secondary mortgage market;
- Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations; and
- Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

FHFA has already initiated several long-term improvements to the housing finance system such as the Uniform Mortgage Data Program, Joint Servicing Compensation Initiative, Servicing Alignment Initiative, and Loan-Level Disclosures Initiative. The *Strategic Plan for Enterprise Conservatorships* also outlines how FHFA will work with the Enterprises to increase g-fees, develop industry standards that promote a more efficient housing finance market, and evaluate alternative transition plans for the Enterprises. This Strategic Goal is consistent with the *Strategic Plan for Enterprise Conservatorships* and sets forth several performance goals FHFA expects to accomplish in FY 2013.

Performance Goal 4.1 Build a new infrastructure for the secondary mortgage market			
Measures		Target	Leader
4.1.1	Publish a White Paper soliciting public input on a common securitization platform and model pooling and servicing agreement.	Q1 FY 2013	Deputy Director, Office of Strategic Initiatives
4.1.2	Finalize plan(s) for the securitization platform and pooling and servicing agreement.	Q3 FY 2013	Deputy Director, Office of Strategic Initiatives

Overview of Performance Goal 4.1

FHFA is working with the Enterprises to make long-term improvements to the functioning of the housing finance system. Although much of the future of the country's housing finance infrastructure rests with Congress, FHFA has an important role to play in providing its expertise on how to improve the existing mortgage market infrastructure. The first goal that FHFA identifies in the *Strategic Plan for Enterprise Conservatorships* is to "build a new infrastructure for the secondary mortgage market." This goal acknowledges that there would not be a secondary market for non-government-insured mortgages without the Enterprises. No private sector infrastructure exists today that is capable of securitizing the $100 billion per month in new mortgages being originated. The Strategic *Plan for Enterprise Conservatorships* establishes the steps that FHFA and the Enterprises will take to begin creating the necessary infrastructure, including a securitization platform and national standards for mortgage securitization that may be used to develop the mortgage market of the future.

During FY 2013, FHFA will publish a white paper soliciting public input on the securitization platform and pooling and servicing agreement. The final securitization platform will improve existing infrastructure and enhance the functioning of the mortgage market. FHFA supports the Administration's white paper recommendation to have a gradual transition to greater private capital participation in housing finance and greater distribution of mortgage risk to participants other than the government. The work of FHFA on the securitization platform is consistent with the Administration's focus on stronger underwriting and pricing and the re-introduction of private capital.

Means and Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 4.1:

- Contribute to housing finance reform by developing and analyzing alternative transition plans for the Enterprises.
- Identify barriers to private sector participation in housing markets and develop strategies for removing these barriers.
- Evaluate external research, analysis, and proposals. The Enterprises, with FHFA guidance, will evaluate external input (research, analysis, proposals, etc.) in regards to the white paper. The white paper will discuss the common securitization platform as well as the model pooling and servicing agreement.
- Provide reports and other communications to the legislative branch, the executive branch, and FHFA's stakeholders.
- Testify on the condition and status of the Enterprises and on the future of housing finance as requested.

Data Validation and Verification

Under FHFA leadership, Fannie Mae and Freddie Mac will develop a white paper on a proposed securitization platform and model pooling and servicing agreement. FHFA will edit and approve the final draft of the white paper, which will be published and available on the FHFA website for a comment period. A subsequent project plan, considering comments received on the white paper, will be developed. FHFA will oversee the Enterprises' progress through daily and weekly meetings and working sessions.

Performance Goal 4.2 Establish standards that promote a safer and more efficient housing finance system			
Measures		**Target**	**Leader**
4.2.1	Work with the industry to develop servicing data standards, and agree on a timetable for data collection.	Q3 FY 2013	Sr. Associate Director, Housing & Regulatory Policy
4.2.2	Announce, via the Enterprises, selling and servicing policies in support of the Contract Harmonization Project.	Q2 FY 2013	Sr. Associate Director, Housing & Regulatory Policy

Overview of Performance Goal 4.2

During FY 2013, FHFA will work to standardize the data that supports loan-level disclosures on Enterprise mortgage-backed securities both at the time of origination and throughout a security's life. Improving data and disclosures will ensure that private capital has the information needed to efficiently measure and price mortgage credit risk, thereby facilitating a shift of this risk away from the government and back to the private sector.

In light of recent deficiencies in the servicing and delivery process, FHFA informed the Enterprises in 2011 that the contract process they use might benefit from harmonization between the two Enterprises. Since then FHFA has begun a Contracting Harmonization Project with the Enterprises and has completed phase 1 of 8 phases. During FY 2013, FHFA will continue to implement the harmonization project in phases. This effort will provide lenders a higher degree of certainty around repurchase exposure and liability as well as consistency around repurchase timelines.

Means and Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 4.2:

- Ensure that new mortgages acquired by the Enterprises are soundly underwritten and priced to ensure an appropriate return, encourage competition, and promote return of private capital.
- Review and revise certain selling and servicing standards that are clear and consistent across the two Enterprises.
- Ensure that the Enterprises review the initial draft data analysis and mapping to the Mortgage Industry Standards Maintenance Organization (MISMO) Servicing model and publish a subset focused on loss mitigation.
- Ensure that the Enterprises provide direction to the market on future data needs to support the disclosure template and securitization platform after evaluating feedback.
- Review and revise certain selling and servicing standards to ensure clarity, consistency and transparency.
- Work with other regulators in rulemaking regarding the standardization of industry process and standards for mortgage securitization.

Data Validation and Verification

The servicing standards measure will be considered to be met based on the industry input notification dates. FHFA will review and approve the Enterprises' selling and servicing policies that support the Contract Harmonization Project and the Enterprises' supporting analyses and justifications.

Performance Goal 4.3 Contract Enterprise operations			
Measures		Target	Leader
4.3.1	Increase the average national ongoing g-fee.	Fiscal Year-Ending September 30, 2013 compared to preceding year	Chief Economist
4.3.2	Reduction in retained portfolio consistent with the Preferred Stock Purchase Agreement.	15% annually	Deputy Director, Office of Strategic Initiatives

Overview of Performance Goal 4.3

Over the last two years, the Enterprises implemented stricter underwriting standards and increased their pricing. As a result, the new loans being guaranteed by the Enterprises today are of higher quality than in the past and are unlikely to pose a significant risk of loss to taxpayers. FHFA will continue to work with the Enterprises to better align pricing of guarantee fees with risk.
FHFA anticipates gradual increases based on risk and cost of capital that will move g-fee pricing closer to a market-based rate.

FHFA remains committed to the principle of reducing the Enterprises' retained portfolios as set forth in the September 2008, and subsequently modified in August 2012, agreement with the Department of Treasury. FHFA does not expect the Enterprises to be substantial buyers of mortgages, with the exception of the Enterprises' purchases of delinquent mortgages out of guaranteed mortgage-backed security pools.

FHFA will continue to work with the Enterprises to minimize their credit losses from these delinquent loans, whether through a loan modification or some other form of loss mitigation.

Means and Strategies

During FY 2013, FHFA will use the following means and strategies in support of Performance Goal 4.3:

- Facilitate the re-entry of the private sector into the housing markets.
- Enforce gradual increase of the Enterprises' g-fee pricing structure.
- Monitor and enforce reduction in the Enterprises' legacy portfolios.
- Work with the Enterprises as they create annual risk management plans.
- Reduce the Enterprises retained portfolios without adversely affecting market liquidity:
    - Develop a plan to facilitate portfolio reductions; and
    - Consider strategic sales to maximize value for the taxpayer while minimizing negative market reactions by monitoring the markets for sales opportunities and identifying possible sales candidates.

Data Validation and Verification

FHFA gathers g-fee relevant data from the Enterprises on a monthly basis and will use this data to validate the increase in the g-fees. FHFA also writes an annual report to Congress that discusses the yearly changes in g-fees. FHFA's market risk team evaluates monthly and quarterly retained portfolio reports from the Enterprises. This risk assessment is conducted to ensure compliance with the Preferred Stock Purchase Agreements and FHFA guidance.

Strategic Human Capital Management

FHFA's Human Capital programs and operations are aligned to fully support the agency's outcome goals. FHFA human resources personnel hold strategic planning meetings with executives and managers across the agency. During the strategic planning sessions, the outcome goals for the coming year are discussed. Together, staff and managers identify human capital resource needs, training and development requirements, and policies and programs to be implemented to support managers in meeting FHFA's outcome goals. As specific human capital initiatives are defined to meet outcome goals, they are captured in the FHFA Annual Human Capital Action Plan.

The action plan establishes milestones and allows for tracking and monitoring the accomplishment of initiatives in direct support of the agency's outcome goals. The action plan compliments FHFA's Strategic Human Capital Plan and the FHFA Strategic Plan and ensures accountability for human capital policies and activities that are fluid and in direct support of agency outcome goals. Specific initiatives within the Human Capital Action Plan include activities to assess and close employee skill gaps, ensure leadership bench strength, provide timely and high quality recruitment and staffing of vacant positions, implement automated human capital management systems, and ensure successful management of individual employee performance.

Program Evaluations

Program evaluation is an important feedback tool to ensure that FHFA's activities are meaningful and effective. FHFA regularly evaluates its progress towards achieving its goals in an ongoing manner throughout the year. The agency uses its quarterly management meetings to communicate and discuss organizational goals and objectives, and the status of activities which further their achievement. FHFA management also uses the budget formulation and execution processes as opportunities to determine resource needs and reallocate resources to meet its strategic goals. FHFA's Executive Committee on Internal Controls meets quarterly to review the results of internal and external program evaluations. The committee evaluates the findings and establishes appropriate remediation activities for FHFA. Committee activities provide input to FHFA's determinations of the adequacy of internal controls under the Office of Management and Budget Circular A-123. The Quality Assurance internal review process likewise informs on results to help determine a program's relevance.

Additionally, the FHFA Office of the Inspector General (OIG) provides a large role in program evaluation by conducting reviews of various aspects of agency operations. With respect to external evaluations, under the requirements of HERA, the Government Accountability Office (GAO) conducts financial statement audits and other reviews of FHFA. FHFA uses the findings from OIG and GAO to implement improvements in its operations.

Cross-Agency Collaboration

FHFA supervises and regulates large entities that are part of a decidedly complex and interrelated financial market. History meanwhile has shown us that rapid growth in any part of the market can come at a price. Therefore, regular collaboration with other regulatory agencies is an important element of FHFA's supervision work. Our agency has dedicated divisions that not only monitor and analyze a variety of emerging risks, but also have regular discourse with other regulators to share perspectives and exchange best practices. As part of FHFA's day-to-day work and as part of the Financial Stability Oversight Council, the Financial Stability Oversight Board, and Federal Housing Finance Oversight Board, we regularly collaborate and coordinate activities with:

- Treasury
- HUD
- Federal Reserve Board
- Comptroller of the Currency
- Consumer Financial Protection Bureau
- State insurance commissions
- State housing finance authorities
- Securities and Exchange Commission
- Federal Deposit Insurance Corporation
- Commodities Futures Trading Commission
- National Credit Union Administration