



# FHFA STRATEGIC PLAN: FISCAL YEARS 2018-2022

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Office of Budget and Financial Management

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## Mission

Ensure the regulated entities 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.

## Vision

A reliable, stable, and liquid housing finance system.

## FHFA's 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 to inspire trust and confidence in our work.
- Diversity** We seek to promote diversity in our employment and business practices and those of our regulated entities.



## About the Federal Housing Finance Agency

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System, which includes 11 Federal Home Loan Banks (Banks or FHLBanks) and the Office of Finance. The Agency's mission is to ensure that the regulated entities 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. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac (together, the Enterprises).

**FHFA's Regulatory Oversight of the Federal Home Loan Banks, Fannie Mae, and Freddie Mac.** As part of the Agency's statutory authority in overseeing the Federal Home Loan Bank System and the Enterprises, the Federal Housing Enterprises Financial Safety and Soundness Act (the Safety and Soundness Act), as amended by HERA, requires FHFA to fulfill the following duties:

“(A) to oversee the prudential operations of each regulated entity; and

“(B) to ensure that--

- (i) each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls;
- (ii) the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities);
- (iii) each regulated entity complies with this chapter and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;
- (iv) each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with this chapter and the authorizing statutes; and



(v) the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest.”

12 U.S.C. § 4513(a)(1).

**FHFA’s Role as Conservator of Fannie Mae and Freddie Mac.** As part of HERA, Congress granted the Director of FHFA the discretionary authority to appoint FHFA as conservator or receiver of Fannie Mae, Freddie Mac, or any of the Federal Home Loan Banks, upon determining that specified criteria had been met. On September 6, 2008, FHFA exercised this authority and placed Fannie Mae and Freddie Mac into conservatorships. Since the Enterprises were placed into conservatorships, the U.S. Department of the Treasury (Treasury Department) has provided essential financial commitments of taxpayer funding under the Senior Preferred Stock Purchase Agreement (PSPAs). Fannie Mae and Freddie Mac have drawn a combined total of \$187.5 billion in taxpayer support under the PSPAs to date. As of June 30, 2017, the Enterprises have paid the Treasury Department a total of \$270.9 billion in dividends on senior preferred stock. Under the terms of the PSPAs, the Enterprises’ dividend payments do not offset the amounts drawn from the Treasury Department. FHFA continues to oversee these conservatorships.

FHFA’s authority as both conservator and regulator of the Enterprises is based upon statutory mandates, which include the following conservatorship authorities granted by HERA:

“(D) ...take such action as may be--

- (i) necessary to put the regulated entity in a sound and solvent condition; and
- (ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.”

12 U.S.C. § 4617(b)(2)(D).

Carrying on the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1). Additionally, under the Emergency Economic Stabilization Act of 2008 (EESA), FHFA has a statutory responsibility in its capacity as conservator to “implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of...available programs to minimize foreclosures.” 12 U.S.C. § 5220(b)(1).



FHFA, acting as conservator and regulator, must follow the mandates assigned to it by statute and oversee the missions assigned to the Enterprises by their charters until such time as Congress revises those mandates and missions.

## **Strategic Goal 1: Ensure Safe and Sound Regulated Entities**

### **I. Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations**

As regulator of the FHLBank System and as regulator and conservator of the Enterprises, FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA uses a risk-based approach to conducting supervisory examinations, which prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations. FHFA will assess the safe and sound operations of the regulated entities through annual examinations, targeted examinations, ongoing monitoring, and off-site reviews, as appropriate. FHFA uses a uniform examination rating system to assign ratings for the FHLBanks, the Office of Finance, and the Enterprises. FHFA assigns two ratings:

- 1) Composite rating for the overall condition of each regulated entity; and
- 2) Individual component ratings for Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk (CAMELSO).<sup>1</sup>

FHFA assigns these ratings for each regulated entity on an annual basis.

### **II. Performance Goal 1.2: Identify Risks to the Regulated Entities and Set Expectations for Strong Risk Management**

FHFA's supervisory activities will identify existing and emerging risks to the regulated entities. FHFA develops risk assessments by collecting and analyzing information from various sources, including the regulated entities. FHFA coordinates with other supervisory agencies as needed.

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<sup>1</sup> FHFA assigns only individual component ratings for Management and Operational Risk for the Office of Finance.



In order to articulate supervisory expectations for risk management across all risk types, FHFA publishes guidance for examiners and management at the regulated entities. This includes issuing advisory bulletins on specified topics. Additionally, FHFA includes supervisory guidelines in the Agency's Examination Manual, which FHFA revises as necessary. FHFA also issues additional examination instructions to address emerging issues and provide procedural updates.

### III. Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses

In order to assess both timeliness and effectiveness, FHFA evaluates the regulated entities' efforts to remediate identified weaknesses. Adverse examination findings and conclusions are carefully documented and communicated to the regulated entities. Where examination staff identify issues that should be addressed, FHFA uses three categories of examination findings: 1) Recommendations, 2) Matters Requiring Attention (MRAs), and 3) Violations.

Recommendations identify policies, procedures, or practices that could be improved. MRAs and Violations require the regulated entity to take remedial action. FHFA subsequently evaluates the actions taken in response to these supervisory communications through its ongoing supervisory work.

#### Strategic Goal 1—Means and Strategies

- **Conduct risk-based examination work in accordance with examination plans for each regulated entity, including ongoing monitoring, targeted examinations, periodic special and horizontal reviews, and annual examinations.** 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 effectiveness of each entity's risk management and internal controls; and 3) assess compliance with laws and regulations.

FHFA develops examination plans for each regulated entity that provide risk-based on-site examinations. In addition to annual examinations, FHFA's supervisory engagement with the regulated entities may include ongoing monitoring and targeted examinations, as well as communication in various formats. FHFA examines risk management practices and the regulated entity's financial condition and safety and soundness relative to applicable laws, regulations, supervisory guidance, and prudent business practice.

On-site examinations are a critical means of evaluating the effectiveness of risk management by the regulated entities.



- **Identify MRAs of the regulated entities and monitor remediation for both timeliness and efficacy.** FHFA will identify risk management deficiencies, control weaknesses, or other issues that could compromise safe and sound operations or affect compliance with laws, regulations, or Agency directives. Such deficiencies and weaknesses may result in FHFA issuing an adverse examination finding(s) in the form of a recommendation, violation, or MRA.

FHFA communicates examination results to the regulated entities through the examination process. FHFA requires timely corrective action articulated in written remediation plans with timeframes that reflect the significance of an adverse finding(s).

FHFA may pursue an enforcement action, in accordance with published policy on supervisory enforcement, when deficiencies are severe or the regulated entity does not remediate them.

- **Perform off-site analyses of key risk areas to strengthen supervision.** Off-site analyses of key risk areas complement on-site examinations by bringing cross-disciplinary resources that support FHFA's risk-based approach to supervision. Off-site analyses are based upon reviews of data reported by the regulated entities, published financial statements and reports, other available sources of data on housing finance trends, and market drivers of financial results, such as interest rates, rate spreads, and house prices.

Off-site analyses address issues such as financial market conditions, the effect of changes in interest rates and house prices on the financial condition and risk exposure of the regulated entities, management of troubled real estate assets, and executive compensation. FHFA will continue ongoing off-site monitoring of financial trends and emerging risks of the regulated entities.

- **Monitor emerging risks, industry trends, supervisory standards, and macro-economic market conditions in order to inform risk assessments and adjust supervisory approaches when appropriate.** The regulated entities operate in markets that are subject to uncertainty, volatility, and changing processes and practices. In order to inform the Agency's assessment of risk, FHFA will review and analyze relevant data, monitor changing market conditions and developments, and continue to collaborate with other financial regulators, where appropriate.
- **Issue supervisory guidance, supervisory policies, and regulations in order to set standards and expectations for safe and sound operation of the regulated entities.** Taking into account examination findings and analysis of existing and emerging risks, FHFA will issue internal guidance to examiners in the form of Examination Manual modules and supplemental guidance. FHFA will issue external guidance to the regulated





entities in the form of advisory bulletins that set forth supervisory expectations in particular areas of risk management, internal controls, or compliance. FHFA will issue and revise guidance and regulations as necessary to ensure the regulated entities' policies and practices abide by safe and sound principles.

- **Continue to enhance training and development of examination staff.** FHFA will enhance examiner capability through the ongoing development and administration of examiner education and accreditation programs. FHFA will also continue to develop technical training on market developments, emerging risks, FHFA guidance, and sound industry practices and standards.

## Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance

### I. Performance Goal 2.1: Ensure Liquidity in Mortgage Markets

For both the FHLBank System and the Enterprises, FHFA has the statutory obligation to “foster liquid, efficient, competitive, and resilient national housing finance markets” while ensuring that the regulated entities meet their fundamental safety and soundness obligations. FHFA’s responsibilities for housing finance market liquidity and safety and soundness are inherently intertwined. FHFA will evaluate policies and take appropriate action to promote both goals.

**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 and community lending. As regulator of the FHLBank System under the Safety and Soundness Act and the Federal Home Loan Bank Act, FHFA will work to ensure that the FHLBanks continue to fulfill their statutory mission of providing liquidity to their members.

**The Enterprises:** As both regulator and conservator of the Enterprises, FHFA will require the Enterprises, where feasible, to: 1) take actions to improve liquidity in the single-family housing finance market; 2) continue to improve servicing standards and foreclosure prevention actions; and 3) maintain a critical ongoing role in the multifamily sector, particularly for affordable multifamily properties and underserved market segments.



## **II. Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets**

FHFA will focus on promoting stability in the housing finance market, both as regulator of the FHLBank System and regulator and conservator of the Enterprises. In support of this objective, FHFA will seek to provide clarity and certainty about the Agency's supervision and conservatorship expectations of the regulated entities. In addition to seeking feedback from the regulated entities, FHFA will seek public input from market participants and stakeholders on priority issues. FHFA will also provide notice, as appropriate, when significant policy decisions require market implementation. Additionally, FHFA expects the regulated entities to promote stability in the nation's housing finance markets by establishing transparent and well-reasoned policies and procedures.

As conservator of the Enterprises, FHFA will also promote stability by working to preserve and conserve the Enterprises' assets and business operations. Additionally, FHFA will encourage the Enterprises and the housing industry to adopt standards and practices that promote market and stakeholder confidence.

## **III. Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes, in All Geographic Locations, and for Qualified Borrowers**

Having a liquid housing finance market throughout the country requires active participation by a wide range of lenders, including small lenders, lenders serving rural areas, and state and local Housing Finance Agencies. Additionally, a healthy housing market requires liquidity and access across different borrower market segments to provide homeownership opportunities to creditworthy borrowers, sensible and appropriate loss mitigation options when borrowers fall into economic distress, and affordable rental housing options. Even in liquid markets, and especially during times of market uncertainty, some qualified borrowers and financial institutions may face barriers and disruption in their access to financing. FHFA is committed to fair and equitable access to the regulated entities' financial services by qualified financial institutions and creditworthy eligible borrowers.



## Strategic Goal 2—Means and Strategies

- **Promote actions by the Enterprises to maintain liquidity in the single-family secondary market for purchase money and refinance mortgages.** FHFA will continue to focus on meeting the goals of the conservatorships by maintaining Enterprise support for the housing finance market and mitigating losses to taxpayers. FHFA will promote ongoing liquidity in the marketplace for new mortgages and mortgage refinance activities and will continue the critical tasks of foreclosure prevention and loss mitigation.
- **Ensure the FHLBanks continue to provide advances in a safe and sound manner in support of member liquidity.** FHFA will examine FHLBanks' credit and collateral risk management practices and advance terms to ensure consistency with regulation and supervisory expectations.
- **Monitor access to mortgage credit.** FHFA analyzes trends in the availability of mortgage credit to both single-family and multifamily borrowers. FHFA will monitor access to mortgage credit using data reported by the regulated entities, data from third-party sources, and discussions with industry sources. FHFA's assessment of access to mortgage credit will inform potential policy initiatives.
- **Support multifamily housing needs with a focus on the affordable and underserved segments of the market.** The Enterprises play a significant role in supporting liquidity in the multifamily housing market. FHFA expects the Enterprises to maintain a multifamily liquidity presence in all geographic areas and through all market cycles, and to focus on the affordable segment of the market. FHFA may impose a production cap on the Enterprises' multifamily business as part of the annual conservatorship scorecard. To encourage purchases in underserved market segments, certain mission-related activities will not count toward the production cap. These mission-related activities include affordable rental housing, rural housing, buildings with between 5 and 50 units, seniors' housing, and property improvements that help realize energy and water savings.
- **Collaborate with other federal regulators to identify and address risk and other emerging issues.** FHFA works with other federal regulators through its participation on the Financial Stability Oversight Council, the Financial Stability Oversight Board, the Federal Housing Finance Oversight Board, and other interagency initiatives. FHFA will continue to collaborate with other regulators to: 1) identify and address foreign and domestic risks; 2) coordinate supervision efforts consistent with each agency's respective examination and supervision responsibilities; 3) complete interagency rulemaking; and, 4) pursue efforts that streamline and increase efficiency of regulatory activities.



- **Monitor housing markets and conduct independent studies and reports.** FHFA will continue to develop studies and reports that analyze various factors affecting access to housing finance for qualified borrowers and financial institutions. The information resulting from these reports and analyses will contribute to FHFA's ability to ensure liquidity, stability, and access in the housing finance markets. Additionally, FHFA will continue to develop monthly and quarterly house price indexes reflecting changes in house prices in each of the states and nine Census divisions.
- **Continue to promote home retention and loss mitigation programs.** Home retention initiatives, such as loan modification and refinancing programs, help reduce the number of defaults and foreclosures by allowing eligible borrowers to obtain more favorable rates or terms on their mortgages. Such initiatives reduce losses to the Enterprises and contribute to greater stability and liquidity in housing markets and neighborhoods. FHFA expects the Enterprises to continue their support for the Flex Modification (Flex Mod) program, the successor to the Home Affordable Modification Program (HAMP) and Standard and Streamlined Modifications. FHFA expects the Enterprises to also support related initiatives to review and update loss mitigation standards where appropriate.
- **Responsibly reduce the number of severely-aged delinquent loans and real estate owned (REO) properties with a priority on neighborhood stabilization.** FHFA will work with the Enterprises to continue their non-performing loan (NPL) sales of severely-aged delinquent loans, including through geographically targeted pools that are designed to enhance participation by non-profit entities. FHFA will also continue to work with the Enterprises to support the responsible disposition of REO properties in the most distressed communities through the Neighborhood Stabilization Initiative.
- **Promote policies and practices at the regulated entities to provide fair access to finance and financial services for all eligible financial institutions and qualified borrowers.** FHFA will work with the FHLBank System to ensure that FHLBank membership and advance policies enable fair access by eligible institutions. FHFA will also work with the Enterprises to address barriers for small lenders, lenders serving rural areas, and state and local Housing Finance Agencies.

Consistent with the safety and soundness of the Enterprises, FHFA is committed to reducing barriers that restrict creditworthy borrowers' access to responsible lending. FHFA will continue to work with the Enterprises, lenders, and other stakeholders to provide greater clarity regarding both origination and servicing obligations. FHFA also expects the Enterprises to assess whether there are additional opportunities, including pilots and initiatives, to reach underserved creditworthy borrowers.



FHFA will work to promote and ensure diversity and inclusion of minorities and women in the business and activities of the Agency and the regulated entities. The Safety and Soundness Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act require FHFA, Fannie Mae, Freddie Mac, and the FHLBanks to promote diversity and inclusion of women and minorities in all business and activities. FHFA will continue to provide technical assistance to, and supervise and examine, the regulated entities' diversity and inclusion programs in the areas of supplier diversity, workforce and board diversity, and capital markets and financial transactions. FHFA's examination work will look at how the regulated entities are implementing programs to advance access and participation in their business and activities. FHFA will also continue to advance the Agency's own diversity and inclusion program in its business and activities.

- **Oversee the regulated entities' additional statutory requirements.** FHFA will meet its statutory responsibilities to issue regulations as needed defining the regulated entities' Housing Goals and Duty to Serve obligations for the Enterprises, and FHFA will annually monitor the Enterprises' Housing Goals and Duty to Serve performance. FHFA will also continue to monitor and examine the FHLBanks' activities annually under the Affordable Housing Program (AHP), Community Investment Program (CIP), Community Investment Cash Advance program (CICA), and FHLBank Housing Goals.

## Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

### I. Performance Goal 3.1: Preserve and Conserve Assets

FHFA's authority as both conservator and regulator of the Enterprises is based upon statutory mandates to foster a liquid, efficient, competitive, and resilient national housing finance market; ensure safe and sound Enterprise operations; and preserve and conserve Enterprise assets. FHFA will oversee the conservatorships of the Enterprises in their current state and seek to ensure that the Enterprises' infrastructures meet the needs of their current credit guarantee businesses and other operations. FHFA will also maintain programs and strategies to support ongoing mortgage credit availability, assist homeowners facing hardships, and minimize taxpayer losses. While the Enterprises are in conservatorships, FHFA will strive to maintain core business operations, maintain executive management and board oversight, ensure timely replacement of departing executive officers and board members, and provide clear expectations to Enterprise boards and management.



FHFA will develop an annual Conservatorship Scorecard to guide Enterprise management in fulfilling FHFA's [\*2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac\*](#) and will establish performance metrics to measure how well the Enterprises are meeting their Scorecard goals.

## **II. Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations**

FHFA is focused on introducing additional private capital into the housing finance system to lessen taxpayer risk by reducing Fannie Mae and Freddie Mac's overall risk exposure. FHFA's objective is to shift risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit.

This priority includes having the Enterprises conduct credit risk transfers for their single-family credit guarantee business. These programs have become core parts of the Enterprises' business model. The transactions to date have attracted private capital to share in credit losses, and FHFA will work with the Enterprises to continue and enhance these programs.

FHFA is also overseeing ongoing and required reductions in the Enterprises' retained portfolios. The Senior Preferred Stock Purchase Agreements (PSPAs) with the Treasury Department require the Enterprises to reduce each of their portfolios to no more than \$250 billion by 2018. FHFA is requiring that the Enterprises continue to prioritize selling their less liquid portfolio assets, implement plans to meet the PSPA 2018 portfolio reduction goals even under adverse market conditions and in a way that is consistent with neighborhood stabilization, and develop retained portfolio plans for post-2018.

Another risk-reduction priority involves overseeing appropriate Enterprise counterparty requirements. FHFA will continue to monitor these standards and make improvements where appropriate in a manner that is consistent with safety and soundness and access to credit considerations.

## **III. Performance Goal 3.3: Build, Implement, and Operate a New Single-Family Securitization Infrastructure and Implement the Single Security Initiative**

Building a new infrastructure for the securitization functions of the Enterprises remains an important priority for FHFA. This includes ongoing work to develop the Common Securitization



Platform (CSP) and to improve the liquidity of Enterprise securities. Additionally, FHFA continues work to build more accurate and uniform mortgage data standards used by both the Enterprises and other market participants.

Development and implementation of the CSP will focus on making the new shared system operational for existing Enterprise single-family securitization activities. Developing this shared infrastructure will require modifying the Enterprises' current securitization systems, software, and processes so that they can effectively integrate with the CSP. Targeting the CSP development to the Enterprises' current functions will allow FHFA and the Enterprises to manage the risk of this project appropriately. While FHFA will require the Enterprises to build the new infrastructure for use by both companies, FHFA will also require that the CSP be adaptable for use by additional market participants in the future. As a result, the Enterprises and CSP team will continue to focus on leveraging industry-standard interfaces, industry software, and industry data standards where possible.

In order to leverage CSP advantages fully, FHFA is also prioritizing ways to improve the overall liquidity of the Enterprises' securities. This includes implementing the Single Security Initiative, which entails the development of a common security known as the Uniform Mortgage-Backed Security (UMBS). This initiative should increase the overall liquidity of the secondary mortgage market. In addition, this initiative should reduce the trading value disparities between Fannie Mae and Freddie Mac securities. The different mortgage securities currently issued by the Enterprises are not fungible with one another, and Freddie Mac's security has historically traded less favorably compared with Fannie Mae's security. As part of the effort to implement the Single Security Initiative, FHFA and the Enterprises have defined the security characteristics, disclosure requirements, and timeline for implementation.

### Strategic Goal 3—Means and Strategies

- Provide clear conservatorship expectations to Enterprise boards and management.** FHFA will continue to use four key approaches to provide clear expectations to the Enterprises' boards and management. First, FHFA establishes the overall strategic direction for the Enterprises in the Agency's [\*2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac\*](#) and in annual scorecards. Second, FHFA authorizes the boards of directors to oversee and senior management to carry out the day-to-day operations of the companies. Third, FHFA has carved out actions of the Enterprises that require advance approval by FHFA. Fourth, FHFA oversees and monitors Enterprise activities.



- **Oversee Enterprise staffing.** Successful accomplishment of FHFA’s conservatorship objectives requires qualified boards of directors, Chief Executive Officers (CEOs), management, and staff at each Enterprise. FHFA will continue to oversee the hiring and retention of board members and CEOs.
- **Address outstanding claims involving FHFA, Fannie Mae, and Freddie Mac.** FHFA is nearing the conclusion of its litigation concerning pre-conservatorship violations of federal securities laws in mortgage-backed securities (MBS) sales to Fannie Mae and Freddie Mac. FHFA has settled the majority of this litigation and one litigated case remains on appeal as of this publication. FHFA will also continue monitoring legal developments that might affect FHFA’s role as conservator of the Enterprises.
- **Promote credit risk transfers that reduce taxpayer risk by attracting private capital.** FHFA will continue to oversee the Enterprises’ activities to increase and deepen credit risk-sharing transactions by setting targets for multiple types of single-family mortgage credit risk-sharing transactions, and holding Enterprise management accountable for meeting those targets. FHFA also requires the Enterprises to assess the economics and feasibility of additional types of risk transfer structures. FHFA also expects the Enterprises to explore opportunities to share additional credit risk with private capital on multifamily mortgages, while also maintaining the Enterprises’ multifamily business models and evaluating the cost of such risk sharing.
- **Oversee Enterprise counterparty eligibility requirements.** FHFA will work with the Enterprises to oversee their counterparty requirements – including the recent requirements for private mortgage insurers and Enterprise seller/servicers – and will make improvements where appropriate.
- **Reduce the Enterprises’ legacy retained portfolios.** FHFA will continue to oversee the Enterprises’ activities to reduce their retained portfolios to \$250 billion by December 31, 2018 in accordance with the PSPAs, even under adverse market conditions and in a manner consistent with neighborhood stabilization, by: 1) reducing the volume of less liquid assets within the retained portfolios; 2) evaluating sales for their economic advantages to the Enterprises; and 3) ensuring that sales consider impacts on the market, borrowers, and neighborhood stability.
- **Support the development, implementation, and operation of the Common Securitization Platform.** FHFA will continue to work with the Enterprises to develop, test, and implement the CSP to replace the current separate proprietary systems at each Enterprise. When the CSP is completed, the platform will support the Enterprises’ issuance, settlement, and monthly bond administration of mortgage-backed securities, including the related disclosures and tax reporting activities.





- **Implementation of the Single Security Initiative for Fannie Mae and Freddie Mac.** FHFA is working with Fannie Mae and Freddie Mac to implement the Single Security Initiative, which focuses on both Enterprises issuing a common security. The new UMBS should improve the overall liquidity of the Enterprises' securities. FHFA and the Enterprises have established the common security's characteristics and disclosure standards, have announced the timeline for implementation, and have set expectations for the UMBS within the market. Throughout this process, FHFA will solicit feedback from stakeholder groups.
- **Oversee the Enterprises' implementation of the Uniform Mortgage Data Program.** FHFA will continue to guide Enterprise work on developing uniform standards for mortgage-related data reporting. The Uniform Mortgage Data Program is currently focused on improving the reporting consistency, quality, and uniformity of data collected during the mortgage process.

## Critical Factors that Affect Achievement of Strategic Goals

While the housing finance market has stabilized considerably since Fannie Mae and Freddie Mac entered conservatorship in 2008, the economic and housing market landscape is fundamentally different than it was in 2008. Over the five years covered by this plan, FHFA understands that legislative and market uncertainties may ultimately affect the goals and objectives laid out in this Strategic Plan. Significant labor and housing market uncertainties remain. Market developments and legislative reform initiatives may affect the financial condition, performance, and future of the regulated entities.

### The Domestic Housing Market

Although house prices have enjoyed steady and sizeable price gains over the last five years, the domestic housing market is still likely to be challenging over the next five years. Against a backdrop of legislative and policy initiatives that could change regulatory and credit conditions, interest rate volatility could affect markets. Affordability in the housing market for first-time buyers is another ongoing concern, particularly in larger cities where first-time homebuyers are more likely to seek home ownership. Home construction, a factor that has historically played a role in improving affordability, has been relatively modest for a number of years and, given labor shortages for certain key trade groups, and other factors, many observers do not anticipate a rapid expansion in construction activity.



While not without challenges and uncertainties, multifamily housing markets are generally expected to remain relatively strong. For instance, it is expected that growing demand for multifamily units will continue, particularly in those metropolitan areas with the best prospects for job growth. Much of the growth in the multifamily market has taken place with more expensive units, and rental affordability continues to be a challenge for many households.

### **Economic Conditions and the Regulated Entities**

The financial condition and performance of the Enterprises and the FHLBanks are dependent on the performance of the U.S. housing and mortgage markets, agency debt markets, and general business and economic conditions. The Enterprises and the FHLBanks are exposed to credit risk on mortgage loans and mortgage securities held in their investment portfolios. In addition, the Enterprises are exposed to credit risk on mortgage loans that back MBS guaranteed by the Enterprises that is outside the coverage provided through credit risk transfer transactions. The FHLBanks are exposed to credit risk on mortgage loans and securities held as collateral for their advances to members. Both the Enterprises and the FHLBanks have exposure to interest rate risk from the capital markets, especially in the agency debt markets. The debt markets affect the regulated entities funding cost, mortgage rates, and mortgage prepayment behaviors.

The Enterprises have two primary sources of revenue: 1) guarantee fees on mortgages held by consolidated trusts holding Enterprise mortgage-backed securities; and 2) the difference between the interest income earned on the assets in the Enterprises' retained mortgage portfolios and the interest expense paid on the debt that funds those assets. In recent years, the Enterprises have earned a greater proportion of net income from guarantee fees than from interest income. The shift has been primarily driven by guarantee fee increases put in place during conservatorship and the reduction of the retained portfolios in accordance with the requirements of the PSPAs between the Treasury Department and the Enterprises. Market conditions or actions that significantly reduce guarantee fee revenue or increase credit costs could affect the financial condition of the Enterprises.

Advances, the primary business of the FHLBanks, have increased in recent years with an improving economy and with regulatory changes that made advances a more attractive source of funds for some members. Advances spiked to \$1.01 trillion in the third quarter of 2008 as many members used the FHLBanks as sources of liquidity during the financial crisis. After October 2008, the FHLBanks experienced a sharp decline in the demand for advances driven by a weak economy, decreased loan demand, and by members' access to alternative funding sources, including an increase in deposits from members' customers. Advance demand has since increased due to new liquidity guidelines for some members and other factors. Changes to



money market rules have also increased demand for agency debt, allowing the FHLBanks to borrow more cheaply.

Although they have a positive effect on funding costs, low interest rates have dampened revenues from interest-earning assets held by the regulated entities. Meanwhile, the regulated entities' continued access to debt markets at attractive rates remains critical to their effectiveness and ability to support housing finance.

### **The Conservatorships of Fannie Mae and Freddie Mac**

The Enterprises were placed into conservatorships in September 2008 in the midst of a severe financial crisis. Their ongoing participation in the housing finance market has been an important factor in maintaining market liquidity and stability. Conservatorship permitted the U.S. Government to take greater control over management of the Enterprises and gave investors in the Enterprises' debt and MBS confidence that the Enterprises would have the capacity to honor their financial obligations. As conservator, FHFA establishes restrictions and expectations for the Enterprises' boards and for their managements while authorizing them to conduct the Enterprises' day-to-day operations.

As detailed earlier, FHFA's authority as both regulator and conservator of the Enterprises is based upon statutory mandates. FHFA, acting as regulator and conservator, must follow the mandates assigned to it by statute and the missions assigned to the Enterprises by their charters. Congress may choose to revise the statutory mandates governing the Enterprises at any time.

The priorities outlined here in *FHFA's Strategic Plan: Fiscal Years 2018 – 2022* continue to reflect and refine the strategic goals established in the [2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac](#).

While operating in conservatorship, progress has been made with respect to the development of the CSP, a joint venture formed by the Enterprises under FHFA's direction, as well as the Enterprises' single-family credit risk transfer programs. These and other reforms represent multiyear changes to the Enterprises and their operations, practices, and protocols that will provide benefits to the housing finance markets and reduce exposure and risks to taxpayers.

The Enterprises are also parties to PSPAs with the Treasury Department. Under the PSPAs, the Enterprises are provided U.S. taxpayer backing with explicit dollar limits. The PSPA commitment still available to Fannie Mae is \$117.6 billion and the commitment still available to Freddie Mac is \$140.5 billion. Additional draws would reduce these commitments, and dividend payments do not replenish or increase the commitments under the terms of the PSPAs. Starting



in 2013, the PSPAs provided each Enterprise with a capital buffer of \$3 billion to protect each Enterprise against making additional draws of taxpayer support in the event of an operating loss in any quarter, and the PSPAs provide mandated declines of \$600 million each year to these capital buffers. On January 1, 2017, each Enterprise's capital buffer declined to \$600 million and the capital buffer is scheduled to decline to zero on January 1, 2018.

FHFA continues to encourage Congress to complete the important work of housing finance reform. FHFA has reiterated the urgency of reform and that it is up to Congress to determine what future, if any, the Enterprises will have in the future housing finance system.

### **FHFA Resources**

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 communication, collaboration, and coordination by staff and across all offices and divisions within FHFA.

FHFA will continue to recruit, develop, and retain a talented, diverse, and adaptive workforce that promotes organizational excellence and ensures prudential operations of each regulated entity. In order to foster increased staff capabilities, FHFA will also continue to promote accountability and continuous learning. FHFA managers and executives will assess key work requirements and monitor activities in support of FHFA's goals.

Responsive, secure, and efficient information technology capabilities are essential to FHFA's ability to accomplish its mission. To meet the information technology demands, FHFA will continue to provide and update expertise, capabilities, and services in systems development and support. The Agency will also continue to meet the needs for data, information, and knowledge management; information sharing; telecommunications and network support; and technical support and security.

Careful and collaborative planning will be necessary to ensure that *FHFA Strategic Plan: Fiscal Years 2018- 2022* is supported and that Agency resources are available and employed efficiently to support planned activities. FHFA management, technical and program support personnel, and administrative staff will work together on workforce, acquisition, and technology plans, as well as logistical plans for space, supplies, and transportation that align with strategic and annual plans.



## Appendix A: Strategic Planning Process

FHFA developed the *FHFA Strategic Plan: Fiscal Years 2018-2022* through a collaborative process within the Agency. With guidance from the Director, FHFA managers and other subject matter experts were involved with the development of the strategic and performance goals in this Strategic Plan.

To monitor FHFA's progress toward goal achievement, FHFA senior managers meet quarterly to evaluate performance and identify obstacles that could prevent the Agency from achieving its goals. FHFA also uses regular management meetings, reports, and performance review meetings to communicate and discuss organizational goals and objectives. FHFA employees align their job performance plans and individual development plans to support FHFA's strategic goals.

## Appendix B: Consultation and Outreach

FHFA is inviting input from Congress, stakeholders, and the public on the *FHFA Strategic Plan: Fiscal Years 2018-2022* through a 30-day request for input period ending on October 27, 2017.

## Appendix C: Program Evaluations

Program evaluation is an important feedback tool that can provide managers with information to ensure that FHFA's goals are meaningful and the strategies for achieving them effective. The results from FHFA's program evaluations enable staff and senior management to assess goal achievement and plan future programs. FHFA considers the findings from these evaluations and audits in order to improve Agency operations. The primary internal and external evaluations are listed below.

### Internal

**Executive Committee on Internal Controls.** 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 remediation activities for FHFA. Committee activities support FHFA's determinations of the adequacy of internal controls under Office of Management and Budget Circular A-123.

**Office of Quality Assurance.** FHFA established an Office of Quality Assurance (OQA) as part of the Agency's overall internal control structure. OQA's primary function is to assist



management in strengthening risk oversight and improving effectiveness and efficiency of operations by providing objective assessments of FHFA processes and work products, based on an annual risk assessment and as specific needs are identified.

## External

### **Office of Inspector General.**

FHFA's Office of Inspector General conducts independent audits, evaluations, and investigations to help FHFA achieve its mission and goals and guard against waste, fraud, and abuse.

For example, the Office of Inspector General reviews the Agency's information security program annually and reports the results to the Office of Management and Budget, as required by the Federal Information Security Management Act. FHFA uses recommendations from this audit to implement improvements in its information security program.

**Government Accountability Office.** The Government Accountability Office, an investigative arm of Congress, audits FHFA's financial statements, periodically conducts targeted reviews of FHFA's programs and initiatives, and testifies before Congress on its observations and recommendations.

**Congressional Budget Office.** The Congressional Budget Office, also an arm of Congress, periodically issues reports and analytical studies of issues related to the costs, benefits, and risks of the regulated entities and their oversight and testifies before Congress on its findings.

**Office of Personnel Management.** The Office of Personnel Management periodically conducts reviews of FHFA human capital operations to ensure they support the Agency's human capital management and are in compliance with merit system principles.

**Office of Government Ethics.** The Office of Government Ethics periodically conducts reviews of the FHFA ethics program to ensure that it meets the requirements set forth by law, regulation, and OGE guidance.

**National Archives and Records Administration.** The National Archives and Records Administration reviews the annual agency self-assessment submitted by FHFA to ensure that FHFA is in compliance with statutory and regulatory recordkeeping requirements.

**Federal Emergency Management Agency.** The Federal Emergency Management Agency conducts a biennial assessment of FHFA's continuity capability and reports the results to the President through the National Continuity Coordinator.

