

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT



FY 2000 PERFORMANCE REPORT

MARCH 29, 2001

DIRECTOR'S MESSAGE

Fiscal year 2000 marked another year of accomplishments for the Office of Federal Housing Enterprise Oversight (OFHEO). Existing program areas were strengthened to ensure OFHEO's oversight remains consistent while new areas were added to fully consider areas of growth at the Enterprises.

In FY 2000, OFHEO met or exceeded 15 of its 17 stated Performance Goals. Of the two outstanding goals, one – to streamline the risk-based capital calculation process – was not met because a new, more efficient procedure was adopted to ensure the final rule is both accurate and workable, while the other – to use internal modeling and analytic capacity to regularly analyze Enterprise risks – was not met because valuable resources were committed to finalizing the risk-based capital rule.

In March, the comment period on OFHEO's much-anticipated risk-based capital proposal closed. It was followed by a 30-day comment-on-comments period, which provided OFHEO with analysis of comments received. This exchange and peer critique allowed OFHEO to benefit from the experience of various stakeholders. Also, this exchange of ideas provided valuable insights to assist in completing my first priority, publishing a final risk-based capital rule which allows the Enterprises the flexibility needed to operate their businesses while closely matching capital to risk. These contributions have enhanced a truly state-of-the-art, risk-based capital regulation.

In FY 2000, OFHEO also completed another comprehensive risk-based examination of the Enterprises – incorporating credit risk, market risk, operations risk, and corporate governance. This examination program, established just a few years ago, is already highly regarded as one of the best of any financial safety and soundness regulator.

While important, these successes are only the beginning of OFHEO's ongoing commitment to fulfilling its statutory mission.

On the heels of my commitment to ensuring OFHEO has the resources to better understand the impact of market developments on the Enterprises, I began a top-down review of OFHEO's regulatory infrastructure. Through this review, I concluded that OFHEO's supervisory regime would be well-served by formalizing many day-to-day functions through public notice and comments. This project has already yielded results and will continue to ensure the Enterprises and the public have the information necessary to understand the process by which OFHEO completes its mission.

In conclusion, FY 2000 was another truly exciting year for OFHEO. As we enter the new millennium, OFHEO is moving forward with the comprehensive regulatory oversight program Congress laid out for us. I remain committed to ensuring that OFHEO is a strong and capable regulator and look forward to another successful year.

Armando Falcon, Jr.
March 29, 2001

FY 2000 Performance Report

OFHEO's Mission Statement

OFHEO promotes housing and a strong economy by ensuring the safety and soundness of Fannie Mae and Freddie Mac and fostering the strength and vitality of the nation's housing finance system.

Introduction

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

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

Fannie Mae and Freddie Mac are the nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders, and either hold these mortgages in their own portfolios or repackage them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers. At the end of FY 2000, Fannie Mae and Freddie Mac held or guaranteed over \$2.2 trillion in mortgages.

FY 2000 Performance Plan and Report

The FY 2000 Performance Report describes what OFHEO accomplished as compared to its FY 2000 Performance Plan to achieve the goals and objectives in the FY 1998 - FY 2003 Strategic Plan. In September 2000, OFHEO issued a Strategic Plan for FY 2000 - FY 2005, which provides a framework for OFHEO's FY 2002 and future Annual Performance Plans and operations.

OFHEO primarily accomplishes its mission by conducting examinations of the Enterprises and by assessing their capital adequacy. These broad objectives may be difficult to quantify and measure for three primary reasons: First, OFHEO regulates two institutions, not hundreds or thousands. Thus, measuring the Office's performance against its goals by reference to changes in the percent of institutions that meet a standard is not very meaningful for OFHEO.

Second, OFHEO continues to develop its complete regulatory framework. Because of this, many of OFHEO's strategies and objectives focus on developing, implementing and reengineering certain activities and capabilities.

Third, OFHEO's role as a regulator, among other things, is to establish, monitor and implement regulations that will ensure that both Enterprises are adequately capitalized and operate in a safe and sound manner. It is these activities, and the strategies and processes used to develop and implement them, that are included in OFHEO's Annual Performance Plan. The best measure of OFHEO's overall performance is whether its actions result in safe and sound operations and adequate capital levels at each Enterprise.

Currently, OFHEO is using the minimum capital standard to determine capital adequacy. One of OFHEO's top priorities has been to complete the risk-based capital regulation, which will enable the Office to also apply a risk-based capital standard to the Enterprises to determine capital adequacy. The stress test will produce a measurable risk-based capital level for each Enterprise and serve as a valuable regulatory tool. Recognizing how significant this task is to continued effective oversight of the Enterprises, OFHEO elevated completing the stress test, issuing the risk-based capital regulation in final, and subsequently implementing it -- activities which might otherwise be viewed as strategies themselves -- to the strategic objective and performance goal levels when developing both its Strategic and Annual Performance Plans. During FY 2000, OFHEO did not conduct any program evaluations.

Mortgage Markets and the Enterprises in FY 2000

This has been an important year for OFHEO, as it monitors and assesses the dynamics of the Enterprises and the secondary and primary mortgage markets. Automation is quickly changing the way the industry operates from top to bottom. Automation and the new activities and growth of Fannie Mae and Freddie Mac are blurring the lines between the primary and secondary mortgage markets. Those trends are very likely to continue as the Enterprises search for new opportunities to meet their stated financial goals of continued strong earnings growth. Through its examinations, capital assessments, and research and analysis, OFHEO has and will continue to provide oversight in these areas as the Office carries out its mission.

Fiscal year 2000 was a year of tremendous growth for the Enterprises. The amount of mortgages on which the Enterprises are exposed to credit risk increased to over \$2.2 trillion during that year. During the period, the combined amount of the Enterprises' retained mortgage portfolios grew by nearly 14 percent to over \$900 billion. In addition to credit risk, the Enterprises are exposed to interest rate risk from their retained mortgage portfolios.

The Enterprises continued to take advantage of the reduced volume of Treasury securities in the market by expanding their issuance of debt instruments—Fannie Mae Benchmark Notes and Freddie Mac Reference Notes—that closely resembled the characteristics of Treasury debt. With outstanding amounts of these debt instruments totaling over \$200 billion at the end of FY 2000, market participants are increasingly using Enterprise debt as “benchmarks” against which other securities are measured.

During FY 2000, the Enterprises' market share of residential mortgage debt increased. As of June 30, 2000, Fannie Mae and Freddie Mac held in portfolio or guaranteed in the form of mortgage-backed securities 40 percent of the \$5.4 trillion in total residential mortgage debt outstanding, up from 39 percent of total residential mortgage debt outstanding as of June 30, 1999.

In FY 2000, the Enterprises broadened the availability of technology-based lending tools and increased the proportion of mortgages they purchased that were evaluated by their automated underwriting systems prior to purchase. The Enterprises also introduced E-commerce initiatives that allow lenders and investors to do business with them over the Internet. These developments continue to have a major impact on the housing and capital markets and will ultimately foster efficiencies in the industry.

Also this year, the Enterprises continued to explore flexible underwriting standards by looking farther out the credit spectrum when buying loans for their portfolio. Both Enterprises introduced programs under which they will purchase mortgages with loan-to-value (LTV) ratios of 100 percent. OFHEO will continue to assess the risks associated with higher-risk and high-LTV loans, how the Enterprises manage that risk, and set capital at an appropriate level.

As the new millenium approached, OFHEO closely monitored the Enterprises as they effectively managed their Year 2000 conversion, ensuring that they and their counterparties and suppliers were Year 2000 compliant.

Managing and Measuring Performance

During the year, OFHEO managers maintained ongoing communications about their progress in achieving OFHEO's performance goals. They also documented progress formally on a quarterly basis. In virtually all cases, senior management was aware of progress toward achieving performance goals in real time--before the quarterly report was prepared.

For FY 2000, OFHEO requested \$19.5 million, which was enacted in appropriations. This was a 22 percent increase over the FY 1999 level of \$16 million. Because OFHEO's appropriation is for a single account, and management has access to real-time budget information, management was able to redirect resources in a timely manner to facilitate achieving OFHEO's performance goals.

OFHEO's staff is its most valuable resource. The Office relies on those with cutting edge professional skills and a breadth and depth of knowledge in their fields. Their technical competence, effective teamwork and focused performance are crucial to OFHEO's achieving its goals. In FY 2000, OFHEO continued to attract and maintain a high performance workforce. OFHEO's ability to achieve its mission and keep pace with the Enterprises is highly contingent on attracting and retaining personnel with appropriate skills.

The performance information in OFHEO's Annual Performance Report is complete and reliable. Performance information is available and reported for all goals. OFHEO's managers report their performance and progress against the performance goals, and can rely on this information as they manage their operations. Most of OFHEO's performance indicators reflect data and milestones internal to the Office. The data used as input to the capital calculations are an exception. For the minimum capital calculation, senior officers of each Enterprise transmit their data and attest to its completeness and accuracy. OFHEO is able to validate the data through comparison with published Enterprise data with a high level of integrity, and has been comfortable with the data received. When the risk-based capital standard is used for capital calculations, OFHEO anticipates an ability to validate aspects of the data submission through various checks in the financial simulation model.

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

The statutory duty of the Director of OFHEO is to “ensure that the Enterprises are adequately capitalized and operating safely.” OFHEO was given two primary regulatory tools to accomplish these statutory responsibilities. The first is the authority to develop and enforce capital standards for the Enterprises. In FY 2000, OFHEO worked to finalize the risk-based capital standard which is expected to be the binding capital requirement for the Enterprises. OFHEO anticipates publishing the rule in final during FY 2001. The second regulatory tool is the authority to conduct on-site safety and soundness examinations of the Enterprises’ operations. In FY 2000, OFHEO finished its second annual (calendar year (CY) 1999) comprehensive risk-based examination of the Enterprises and worked on its CY 2000 examination. Capital standards and examinations are mutually reinforcing and complimentary tools. Information and findings from one become integrated with the other in an iterative process. OFHEO has identified five strategic objectives with supporting performance goals for FY 2000 that will enable the Office to reach this strategic goal. OFHEO’s performance is described below.

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

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

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

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

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met

After receiving nearly 2,000 pages of substantive comments submitted by over 35 commenters when the comment period closed on March 10, 2000, OFHEO solicited comments on the comments received for an additional month and received 11 more comments in reply. During FY 1999 and FY 2000, OFHEO made presentations to interested groups about the risk-based capital regulation and responded to requests for information needed to better understand and comment on the proposed rule. OFHEO used its web site and the *Federal Register* to disseminate information when appropriate. This volume of comments far exceeded the target and also furthered the achievement of Strategic Objective 2.2, providing the Enterprises and other stakeholders the appropriate opportunity for input on regulatory activities.

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

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

Target: Three months after comment period ends.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal not met because OFHEO extended the comment period to better achieve the strategic objective.

After the comment period closed, OFHEO developed a workplan to analyze comments for decisionmaking and incorporate the decisions into the rule. OFHEO briefed members of Congress and their staffs on OFHEO’s progress in analyzing comments and the intricacies of making the rule operational. Incorporating suggestions made by commenters into the rule and the stress test, which are inherently complex, took longer than originally anticipated.

OFHEO shared an early copy of the final rule with the Office of Management and Budget (OMB) in December 2000 and officially submitted the final document to OMB on March 29, 2001. OFHEO is continuing to work with the Enterprises to help them provide data submissions that are complete and accurate, as described in the next performance goal. During FY 2000, OFHEO also contracted for an independent verification and validation of the stress test model from its documentation in the rule, and would make any changes to the software that would be necessary. OFHEO anticipates publishing the rule in final during FY 2001.

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

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

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

Actual Performance: **FY 2000:** Strategy Changed. Goal no longer relevant, as indicated in FY 1999 Performance Report.
FY 1999: Although substantial progress was made toward achieving this goal, it was not met.

During FY 2000, based on comments from the Enterprises and other commenters, OFHEO adopted a new strategy for this calculation process. Under the original plan, the Enterprises would have sent raw data and OFHEO would have done all of the data aggregation and calculations necessary to input the data into the stress test. Under the new strategy, the Enterprises will submit the data in a model-ready format specified by OFHEO in a newly

developed risk-based capital report, similar to the call report used by bank regulators. This should increase the timeliness, accuracy and transparency of the risk-based capital calculations and require modest OFHEO follow-up to verify and validate the data.

During FY 2000, OFHEO began to develop this report and coordinate with the Enterprises to ensure an effective data submission. This change in strategy supplants the specifics of Performance Goal 1.1 (c).

During FY 2000, OFHEO also accomplished significant milestones in making the data warehouse operational and planning for its evolution. The data warehouse is the repository for Enterprise data used by the Financial Simulation Model for the risk-based capital stress test and for other oversight and analytical uses of Enterprise data and related data. During FY 2000, OFHEO completed the data structures for mortgage-related data and non-mortgage financial instruments. The single family and multi-family data structures are loaded with several years of data. OFHEO also addressed the architectural issues—hardware, software and capacity—for the future.

Impact on the Future:

The FY 2001 Performance Plan is revised to include developing a complete and accurate risk-based capital report as a performance measure. Once the regulation is implemented, each Enterprise will submit a risk-based capital report for each risk-based capital determination. The report may need to be updated in the future as the Enterprises undertake new activities.

In FY 2001, OFHEO expects to continue loading both single and multifamily data, with the goal of having a complete time series of multifamily data in the data warehouse.

Strategic Objective 1.2	To require the Enterprises to meet applicable capital standards.
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Performance Goal 1.2(a):	To require the Enterprises to meet applicable capital standards on at least a quarterly basis.
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<u>Performance Measure:</u>	Comparison of actual capital to required capital standard on at least a quarterly basis.
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<u>Target:</u>	Ratio of 1 or greater.
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<u>Performance Measure:</u>	Percent of time acceptable capital plans are obtained from the Enterprises when standards are not met.
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<u>Target:</u>	100 percent.
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<u>Actual Performance:</u>	FY 2000: Goal met. FY 1999: Goal met.
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For each quarter of FY 2000, both Fannie Mae and Freddie Mac were adequately capitalized. OFHEO is statutorily required to determine capital adequacy of the Enterprises on the basis of both minimum and risk-based capital standards. For FY 2000, only the minimum capital standard was applicable. Minimum capital represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. For purposes of minimum capital, an enterprise is considered adequately capitalized if core capital — common stock; perpetual non-cumulative preferred stock; paid-in capital; and retained earnings — equals or exceeds minimum capital.

FY 2000 Minimum Capital Classification
(dollars in millions)

Fannie Mae

	12/99	3/00	6/00	9/00
Actual Capital	17,876	18,637	19,044	19,870
Required Capital	17,770	18,080	18,688	19,381
Surplus (Deficit)	106	557	356	489
Ratio (Actual/Required)	1.01	1.03	1.02	1.03

Freddie Mac

	12/99	3/00	6/00	9/00
Actual Capital	12,692	13,139	13,368	13,865
Required Capital	12,287	12,756	12,936	13,525
Surplus (Deficit)	405	383	432	340
Ratio (Actual/Required)	1.03	1.03	1.03	1.03

During FY 2000, the Enterprises successfully managed to their minimum requirement. For each quarter, each Enterprise held between \$106 million and \$557 million more capital than their minimum requirement. In FY 2000, the ratios of actual to required capital ranged from 1.01 to 1.03, a reduction in the highest capital ratio from the FY 1999 levels, when the range extended to 1.04. OFHEO makes the minimum capital determinations after the Enterprises complete their quarterly reconciliation and submit data to OFHEO for review. The final determinations for the quarters ending in June and September of 2000 are made in FY 2001.

Impact on Future Plans:

This performance goal is a key indicator of the financial safety and soundness of the Enterprises. OFHEO will continue to maintain this performance goal in future Annual Performance Plans. As for FY 2000, OFHEO will continue to use the minimum capital requirement. A year after the risk-based capital regulation is final, OFHEO will also use the risk-based capital standard as an additional measure of achieving this performance goal. OFHEO's risk-based capital standard is the amount of total capital (core capital plus a general allowance for foreclosure losses) that an

Enterprise must hold to absorb projected losses flowing from future severe interest-rate and credit-risk conditions, plus a statutorily mandated additional 30 percent to cover management and operations risk.

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

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

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

Target: February 2000.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

As described in OFHEO’s 2000 Report to Congress, the CY 1999 examinations, which were completed during FY 2000, found both Enterprises financially sound and well-managed. In each of the 10 program areas, both Enterprises exceeded safety and soundness standards. The CY 1999 examinations were OFHEO’s second set of comprehensive annual risk-based examinations. OFHEO finished fieldwork by the end of the calendar year, and delivered the Report of Examination to each Board of Directors by the target date.

There are four risk areas that comprise the examination--credit risk, market risk, operations risk, and corporate governance. These risk areas contain 10 program areas (such as interest rate risk, liquidity management, and information technology) for which examination objectives are determined annually and updated quarterly. OFHEO’s 2000 Report to Congress describes OFHEO’s CY 1999 findings in these areas.

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

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

Target: January 2000.

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

Target: Following quarter end.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

During the fourth quarter of CY 1999, OFHEO developed the examination strategies and objectives for the CY 2000 examination and communicated them to the Enterprises before the start of the calendar year. As an ongoing part of the examination process, OFHEO discussed interim findings and conclusions with the Enterprises.

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

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

Target: At least quarterly.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met

Each quarter, OFHEO prepares surveillance and monitoring reports to assess the condition and performance of the Enterprises. These analytical reports are for internal use and cover the business activity, asset/liability management, asset quality, capital, earnings, and market indices for the Enterprises. During FY 2000, OFHEO enhanced capabilities by expanding the subjects addressed.

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

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

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

Target: 0 percent

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

Throughout the examination, the Office maintained continuous dialogue between OFHEO’s examination personnel and the Enterprises. Through routine discussions during the examination process and regular meetings with senior Enterprise representatives, OFHEO explained its position and sought input on its findings. As a result, OFHEO fostered prompt response to any potential concerns, issues or opportunities identified to enhance the Enterprise’s operations.

Performance Goal 1.4(b):	To communicate examination conclusions to the Boards of Directors and require their appropriate response, including any directives provided to the Enterprises' management.
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Performance Measure: Obtain response from Boards of Directors to conclusions shared in the annual Report of Examination.

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

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

OFHEO met with the Board of Directors at each Enterprise to discuss the conclusions in the annual Report of Examination at the first regularly scheduled board meeting after the report's issuance. The Boards responded in a timely manner.

Performance Goal 1.4(c):	To enhance the effectiveness of communications between OFHEO's examination staff and Enterprise officials.
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Performance Measure: Survey the Enterprises on qualitative aspects of the examination program.

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

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

During FY 2000, OFHEO conducted its second survey to solicit qualitative feedback from the Enterprises regarding the effectiveness of the examination program and the quality of communications. The survey addressed topics such as the timeliness and interactive nature of communications, the customization of the risk-based examination to the Enterprise's risk profile, and the results-oriented nature of the recommendations. For the second consecutive year, the survey results exceeded the target performance level. OFHEO will continue to evaluate surveys conducted by other federal regulators, other federal organizations as well as those used by certain private sector entities, to enhance the survey.

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

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

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

Target: Zero.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

During FY 2000, the Department of Housing and Urban Development did not identify any new programs for OFHEO's safety and soundness review. The Enterprises did, however, introduce a number of new products and activities, which OFHEO continues to monitor and evaluate for potential safety and soundness implications.

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

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

Target: Quarterly.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

During FY 2000, OFHEO combined its internal resources and findings to make a comprehensive evaluation of risks quarterly. OFHEO relied on its quarterly risk assessments, wrote internal analytical updates, research and policy papers in excess of its planned three per quarter, published the House Price Index on a quarterly basis, and published OFHEO's 2000 Report to Congress. This report detailed the activities of the Enterprises, the trends in the secondary mortgage market, and their implications for the future. Considering these factors enabled OFHEO to remain knowledgeable of all relevant risks to the Enterprises' safety and soundness.

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

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

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

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

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

Target: Run specific simulations on an as-needed basis.

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

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

Actual Performance: **FY 2000:** Goal not met.
FY 1999: Goal met.

Based on comments received on the proposed risk-based capital regulation, OFHEO began revising and streamlining the Financial Simulation Model and did not use it for additional simulations. OFHEO also developed prototype reports for a surveillance and monitoring system that would use information from OFHEO’s Data Warehouse. Funds were reallocated toward completing the risk-based capital regulation and other priority oversight activities, and the surveillance and monitoring system, intended to enhance the surveillance and monitoring function that complements and supports the examination program, was not developed.

Impact on the Future:

For FY 2001, OFHEO’s enacted budget is less than the requested level. No funds are available to develop the surveillance and monitoring system. The performance measure for FY 2001 will be revised accordingly. During FY 2001, the financial simulation model will be operational to

run the risk-based capital calculation. OFHEO's analysis of the results of each calculation may contribute to the development of risk profiles. OFHEO is unlikely to develop any alternative simulations to analyze risk profiles during FY 2001 and the performance measure should be interpreted accordingly. OFHEO also anticipates developing an analytical framework in FY 2001 that in future years would provide intermediate outputs from the model that would explain the components of the risk-based capital levels. These should also be useful for analyzing components of Enterprise risks in future years.

Performance Goal 2.1(b):	To maintain the objectivity of the examinations process, OFHEO will participate with other financial regulators on safety and soundness examinations at large financial institutions and be involved in other regulatory forums.
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<u>Performance Measure:</u>	To participate in professional development and training programs and in joint projects with the other financial regulators to broaden examiners' expertise and maintain objectivity.
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<u>Target:</u>	An average of at least two professional development and training programs or joint projects with other financial regulators per OFHEO examination staff member per year.
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<u>Performance Measure:</u>	To participate in examination related forums with the other financial regulators.
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<u>Target:</u>	At least eight.
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<u>Actual Performance:</u>	FY 2000: Goal met. FY 1999: Goal met. (measure more limited in scope)
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OFHEO participated in professional development and training programs that exceeded the target level. OFHEO examiners worked with the Office of Thrift Supervision on market risk examination issues to identify metrics and best practices. Staff also participated in the Information Systems Audit and Control Association, a professional organization that addresses technology issues, and in continuing education in mortgage banking, risk measurement and management, fraud prevention, corporate governance, regulation, and technology.

OFHEO examiners also participated in examination forums exceeding the target level. These forums included the Federal Financial Institutions Examination Council (FFIEC), Mortgage Fraud forums with the other housing and mortgage market regulators and the FBI, the President's Council on Year 2000 Conversion and the GSE Examination Council.

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

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

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

Target: 100 percent.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

OFHEO placed all of its proposed regulations on the OFHEO website when they were published in the *Federal Register*. As described in the report for Performance Goal 1.1(a), to maximize the understanding and public participation in the rulemaking process, OFHEO also used its website to disseminate supplementary information, and published notice of the electronic dissemination in the *Federal Register*. OFHEO uses its website to receive comments electronically on its proposed regulations.

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

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

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

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

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

Target: 100 percent.

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

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

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

OFHEO monitored overall executive compensation at the Enterprises. The Office also reviewed, as required by statute, six executive termination agreements and determined that they were not excessive.

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

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

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

Target: 100 percent.

Actual Performance: **FY 2000:** Goal met.
FY 1999: Goal met.

OFHEO found no instances in which the Enterprises violated other provisions of their Charter Acts or of OFHEO's statute.