Preparing a Foundation for a More Efficient and Effective Housing Finance System

Liquidity ~ Stability ~ Access

Strategic Plan

Federal Housing Finance Agency

Fiscal Years 2013-2017

Message from the Acting Director

I am pleased to present the *Strategic Plan: Fiscal Years 2013-2017* for the Federal Housing Finance Agency (FHFA). FHFA is an independent regulatory agency, responsible for the oversight of the housing government-sponsored enterprises (GSEs or alternatively, 'the regulated entities'). The housing GSEs include Fannie Mae, Freddie Mac (known as the Enterprises) and the Federal Home Loan Banks.

FHFA's mission is to ensure the housing GSEs are safe and sound and that they serve as a reliable source of liquidity and funding for housing finance and community investment. The *FHFA Strategic Plan Fiscal Years 2013-2017* sets four strategic goals for FHFA:

1) Safe and sound housing GSEs.
2) Stability, liquidity, and access in housing finance.
3) Preserve and conserve Enterprise assets.
4) Prepare for the future of housing finance in the United States.

To ensure that the housing GSEs are safe and sound, FHFA, as regulator and conservator must identify and respond to risks to the regulated entities, and take timely and appropriate supervisory actions to improve their conditions. FHFA does this through annual on-site examinations of each of the housing GSEs, off-site monitoring, targeted examinations of particular business operations, and focused program reviews, known as horizontal reviews.

FHFA coordinates with other federal regulators, individually and through its involvement with the Financial Stability Oversight Council (FSOC), the Financial Stability Oversight Board, and the Federal Housing Finance Oversight Board to monitor financial market conditions and stability.

Since September 2008, FHFA has been the conservator of Fannie Mae and Freddie Mac with responsibility of overseeing management and governance of the Enterprises. FHFA establishes restrictions and expectations for the Enterprises' boards and management, but does not manage day-to-day operations.

As conservator, FHFA focuses on improving the Enterprises' operational efficiency and effectiveness, promoting and maintaining foreclosure prevention efforts and credit availability for new and refinanced mortgages, reducing the Enterprises' footprint in current mortgage finance markets, and building infrastructure for future mortgage finance markets. While Fannie Mae and Freddie Mac are in conservatorship, their continued operations depend on capital infusions under an agreement with the U.S. Department of the Treasury.

The agreement with Treasury Department contributes to financial market stability but is not a long-term solution. Such government support for housing is not indefinitely sustainable. However, the form of a successor system of housing finance—one far less dependent on government support—is still uncertain and largely depends on actions that must be taken by the Administration and Congress.

While waiting for important public policy questions ahead to be resolved, FHFA will pursue a series of initiatives and strategies set forward in this plan, which will serve to improve current mortgage processes, inspire greater confidence among prospective market participants, and set the stage for recovery and an improved future system of housing finance. FHFA's strategic plan builds on the strategic plan for the conservatorships that I presented to Congress on February 21, 2012. Strategic Goal four of this plan consists of three performance goals of which two, Build and Contract, are aligned to the Conservatorship Strategic Plan. The Maintain Goal that is part of the Conservatorship Strategic Plan is embedded under Strategic Goals 2 and 3 of this plan. There are several means and strategies that cross-cut more than one strategic goal in this plan.

Working with the Congress, the Administration, and FHFA's stakeholders, I am confident that FHFA will meet the challenge of building the foundation for a safer, more efficient, and effective system of housing finance.

Edward J. DeMarco
Acting Director
Federal Housing Finance Agency

FHFA Strategic Plan:
Fiscal Years 2013-2017

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.

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.***

Summary of FHFA's Strategic Goals

Strategic Goal 1: 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: 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: Preserve and Conserve Enterprise Assets

3.1. Minimize taxpayer losses during the Enterprises' conservatorships

Strategic Goal 4: 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

Performance Goal 1.1: Identify risks and require timely remediation of weaknesses

As prudential regulator of the Federal Home Loan Banks (FHLBanks), and conservator and regulator of the Enterprises, FHFA is responsible for supervising and regulating their operations to promote their safe and sound operations and condition. FHFA must identify and appropriately respond to risks to the regulated entities and ensure they effectively manage risk from any source. In identifying risk and evaluating the housing GSEs risk management, FHFA will rely on its full complement of supervisory tools and authorities. FHFA will also evaluate actions by the regulated entities to remediate weaknesses so that the remedy is both timely and effective.

Performance Goal 1.2: Improve the Condition of the Regulated Entities

The Enterprises have been operating under conservatorship since September 2008. As the conservator of the Enterprises, FHFA will continue to take actions to facilitate improved condition of the Enterprises through aggressive loss mitigation efforts and by reducing their risk exposure through appropriate underwriting and pricing of risks. In carrying out its responsibilities as conservator, FHFA will promote sound operation through its supervisory program.

FHFA's examination programs for the Enterprises and the FHLBanks will continue to include reviews on credit and market risk, governance, risk management, liquidity and other aspects of a sound supervisory program.

Certain FHLBanks have been subject to supervisory actions designed to improve risk management and preserve capital as they deal with troubled real estate-related investments, principally private-label mortgage-backed securities (MBS) issued from 2005 through 2008. FHFA requires any troubled FHLBank to improve its operations, preserve capital and build retained earnings to levels sufficient to support the par value of its capital stock.

Strategic Goal 1—Means and Strategies

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

  FHFA will periodically conduct targeted examinations of particular business operations as well as focused reviews on specific programs or issues of the Enterprises and the FHLBanks.

- ***Identify matters requiring attention of the regulated entities and monitor remediation for both timeliness and efficacy.*** Timely resolution of issues that threaten the financial and operational condition of the housing GSEs is essential to their safety and soundness. Through its supervisory program, FHFA will identify and require remediation of issues that could compromise the safe and sound operations of the housing GSEs.

  FHFA will communicate findings, recommendations, and any required corrective action to the regulated entity's board of directors and management. FHFA examiners will obtain a commitment from the board and management to correct weaknesses or deficiencies in a timely manner and will monitor remediation and verify the effectiveness of corrective actions.

  When deficiencies are severe, or the regulated entity is resistant to remediation, FHFA will pursue an enforcement action, such as a board resolution, a memorandum of understanding, written agreement, or a cease and desist order, as appropriate. Additionally, while Fannie Mae and Freddie Mac are in conservatorship, FHFA may use more direct means through its conservatorship authorities to effect changes at the Enterprises.

- ***Identify emerging risks and adjust supervisory strategies as appropriate.*** FHFA's regulated entities operate in some markets characterized by uncertainty, volatility, and changing processes and practices. As a prudential regulator, FHFA must respond to changing conditions, ensure the regulated entities identify and manage existing and emerging risks, and adjust its supervisory strategies as appropriate to respond to market developments and identified risks.

- ***Develop regulatory policies and supervisory guidance to improve the housing GSEs' risk management, governance, pricing, and asset quality.*** As a result of legislation, including the Housing and Economic Recovery Act of 2008 (HERA) and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), FHFA has issued new or revised regulations and guidance. Some have been finalized, others proposed, and others are being drafted.

  FHFA will complete required rulemakings and develop additional regulations or guidance as needed. When appropriate, existing regulations will be revised to more effectively carry out statutory intent. FHFA regulations and guidance will be revised, if needed, to ensure the housing GSEs' policies on asset acquisition, pricing, and investments are consistent with safe and sound practices. Regulations will support stable housing finance to achieve statutory objectives.

- ***Evaluate and monitor compensation and incentives at the regulated entities for adherence to prudential standards***. FHFA expects the housing GSEs to adhere to the highest standards of corporate governance. FHFA will supplement its on-site examinations by evaluating the executive compensation practices of the regulated entities through annual examinations, targeted examinations, or horizontal reviews. FHFA will evaluate compensation and incentive policies for compliance with effective governance practices and with statutory mandates.

- ***Use quality assurance reviews to enhance the effectiveness of supervision.*** FHFA's quality assurance program provides objective assessments of FHFA examinations and supervision practices; identifies potential areas to improve or enhance existing processes; and strives for disciplined and consistent supervisory processes. FHFA quality assurance staff will monitor identified areas for improvement and monitor remediation of identified deficiencies. FHFA will enhance its examination program and standards, as warranted, to respond to market developments, emerging risks, and changes in supervisory best practices. Staff in the agency's operating units will respond constructively to quality assurance assessments.

- ***Strengthen training and development of examination staff.*** FHFA will have a skills assessment conducted by OPM to identify any shortfalls in examination capacity. FHFA will enhance examiner development through examiner education and accreditation programs. FHFA will develop an accreditation program for its examination staff with a goal to formally implement the program in FY 2013.

- ***Use off-site monitoring and oversight programs to strengthen supervision.*** Off-site monitoring and oversight programs supplement and support on-site examinations with cross-disciplinary resources that can lead to efficient and effective identification of problems and solutions. Off-site analyses are based upon reviews of call report data, published financial statements and reports, and market drivers of financial results, such as interest rates, rate spreads, and house prices among other information provided by the regulated entities. Off-site analyses currently address such issues 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 housing GSEs.

Strategic Goal 2

Stability, Liquidity, and Access in Housing Finance

Performance Goal 2.1: Promote stability and mitigate systemic risk that could lead to market instability

Promote stability in housing markets. Since the Enterprises were placed in conservatorship, guarantee fees have increased several times to better align with market rate risk-based pricing. FHFA will explore more private-sector risk-sharing opportunities, consistent with actions already taken during conservatorship. FHFA will continue to explore options to support a stable transition to a housing finance system with greater private sector participation.

Congressional discussions on a gradual transition to a housing finance system with increased private capital and greater distribution of risk to participants other than the U.S. Government have begun. As debate over the future of the housing finance system progresses, FHFA will focus on promoting stability in housing markets. FHFA will do so through a series of initiatives aimed at retaining value in the business operations of Fannie Mae and Freddie Mac and encouraging these entities and the housing industry to adopt standards and practices that stabilize housing markets and promote market and stakeholder confidence.

Home retention initiatives, such as loan modification and refinancing programs, allow eligible borrowers to realize more favorable rates or terms on their mortgages and potentially reduce the numbers of defaults and foreclosures. Such initiatives reduce losses to the Enterprises and may lead to greater stability and liquidity in housing markets.

FHFA will be actively engaged in developing and promoting prudent home retention programs and foreclosure alternatives, including refinements to the Home Affordable Modification Program (HAMP) and Home Affordable Refinancing Program (HARP) that offer troubled homeowners loan modifications and refinancing opportunities.

FHFA will also work with the U.S. Department of Housing and Urban Development (HUD) and the Treasury Department to consider alternatives to dispose of real estate owned (REO) properties on the books of the Enterprises and the Federal Housing Administration (FHA) using approaches tailored to the needs and economic conditions of local communities.

Mitigate Systemic Risk. The Dodd-Frank Act established FSOC to identify risks to the financial stability of the United States that could arise from the activities, financial distress, or failure of large financial institutions.

As a voting member of the Council, FHFA will continue to work closely with the member agencies to identify emerging risks and mitigate systemic threats to the U.S. financial system. FHFA will contribute to market stability through ongoing market surveillance and timely dissemination of information on housing markets.

Performance Goal 2.2: Ensure liquidity in mortgage markets

Federal Home Loan Banks: The FHLBanks' core mission is to serve as a reliable source of liquidity for their member institutions in support of housing finance. FHFA will work to ensure that the FHLBanks continue to fulfill their statutory mission of providing liquidity to their members.

The Enterprises: Although in conservatorships, the Enterprises must continue to serve as a reliable source of liquidity for housing finance, principally through their mortgage securitization programs. FHFA's *Strategic Plan: Fiscal Years 2013-2017* envisions the Enterprises in conservatorship supporting single-family and multifamily housing finance but also anticipates initiatives that contribute to an increase in the role of private sources of capital in housing finance, ultimately diminishing direct and indirect government support.

While Fannie Mae and Freddie Mac are in conservatorship FHFA will work to ensure that they continue to provide liquidity to the secondary market in a manner consistent with the objective of working to reduce the level of government support.

Performance Goal 2.3: Expand access to housing finance for diverse financial institutions and qualified borrowers

Even in liquid markets, some qualified borrowers and financial institutions may face barriers to financing because of imperfect information, insufficient market activity, or inability to attract capital (in the case of institutions, because of size or area of specialization, for example). Especially during times of market uncertainty, smaller or niche financial institutions may face disruption in their access to financing.

FHFA is committed to ensuring that eligible borrowers and financial institutions have fair and equitable access to finance and financial services offered by the housing GSEs.

In particular, minority- and women-owned institutions must be included in the activities of the housing GSEs. FHFA is also committed to reducing barriers restricting borrower access to the mortgage markets.

Strategic Goal 2—Means and Strategies

- ***Collaborate with other federal regulators to identify and address risk and other emerging issues.*** FHFA works with other federal regulators through its participation on FSOC, the Financial Stability Oversight Board, and the Federal Housing Finance Oversight Board. FHFA will continue to collaborate with these regulators to identify and address foreign and domestic risk and to coordinate, where appropriate, supervision of entities under their examination and supervision responsibilities. FHFA will also prepare for review and sign-off by the Oversight Board an annual Report to Congress on the safety, soundness, and performance of the regulated entities.

- ***Monitor housing markets***. FHFA's reports to the Federal Housing Finance Oversight Board and the FSOC and its members will address mortgage and financial market trends that affect the financial condition and performance of the housing GSEs.

  To enhance its program for monitoring housing markets, FHFA will work to develop a robust housing market information system and conduct a monthly survey of mortgage originations as required by Section 1125 of HERA.

- ***Monitor the regulated entities' use of derivatives.*** Title VII of the Dodd-Frank Act mandates a number of fundamental changes in derivatives markets. The move to central clearing of derivatives should generally reduce counterparty risk.

  FHFA will help establish capital and margin requirements for swap transactions that have not been cleared as part of the joint rulemaking process and will monitor the regulated entities' readiness for and move to central clearing. FHFA will assess and monitor the effects of the transition to central clearing on the cost and effectiveness of interest rate risk management, the level of operational risk, and borrowing costs at the regulated entities.

- ***Actively promote home retention programs and initiatives.*** In 2011, FHFA initiated changes to make refinancing through HARP accessible to more households with mortgages owned or guaranteed by the Enterprises. Changes to the program included: eliminating or reducing certain risk-based fees; eliminating the loan-to-value ceiling for program eligibility; waiving certain representations and warranties; eliminating the need for certain property appraisals; promoting greater ease in carrying over mortgage insurance coverage; and extending the program's end date until December 31, 2013. FHFA will continue its support for HARP and related home retention and loan modification programs.

- ***Develop and implement an improved REO disposition program for the Enterprises.*** FHFA will work with HUD and the Treasury Department to consider new approaches to disposing of Enterprise- and FHA-owned REO properties. Approaches will be tailored to the needs and economic conditions of local communities to bring greater stability to local housing markets.

- ***Promote actions by the Enterprises to maintain secondary market liquidity for new production of purchase money and refinance mortgages.*** FHFA will continue to focus on meeting the goals of the conservatorship through initiatives aimed at retaining value in the business operations of the Enterprises, maintaining their support for the housing market, and mitigating losses to taxpayers. FHFA will work to ensure ongoing liquidity in the marketplace for new mortgages and mortgage refinancing and continue the critical tasks of foreclosure prevention and loss mitigation.

- ***Monitor FHLBank collateral practices and promote actions by the FHLBanks to maintain liquidity sufficient to respond promptly to sudden increases in demand for advances.*** FHFA will work to ensure the FHLBanks can continue to provide advances safely and soundly. FHFA will examine the FHLBanks' operations, internal controls, and strategic assumptions and evaluate whether there are unnecessary impediments to their ability to efficiently and competitively provide liquidity for housing markets through normal or stressed markets and during expansion and contraction cycles.

  In addition, FHFA will assess and monitor the potential impact to the FHLBanks resulting from the revised framework for capital rules and new liquidity requirements under the Basel III accord.[1]

- ***Monitor access to housing markets.*** Using its housing statistics data system, FHFA will produce reports on housing market conditions, identify barriers to mortgage lending and other types of finance and identify options that maximize consumer choice, including lower-income residents, in both rental and homeowner housing.

- ***Promote policies and practices at the regulated entities to provide fair and equitable access to finance and financial services for all eligible financial institutions and qualified borrowers.*** To ensure fair and impartial access to Enterprise products and services, FHFA will require that the Enterprises avoid any policies or practices that favor large institutions to the disadvantage of smaller institutions.

  Examine FHLBanks for compliance with regulations promoting fair access to advances among member institutions and requiring FHLBanks to administer their business fairly and impartially and without discrimination in favor or against any member.

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[1] The Basel III accord is a set of international banking standards that set capital adequacy, stress testing, and market liquidity risk. The Basel Committee on Banking Supervision, a committee of banking supervisory authorities from 10 countries, developed the standards in 2010 and 2011 to respond to the financial crisis that began in 2007.

- ***Promote minority and women inclusion in the activities of the housing GSEs.*** Section 1116 of HERA requires FHFA, Fannie Mae, Freddie Mac, and the FHLBanks to promote diversity and inclusion of women and minorities in all activities. FHFA will work to ensure that the regulated entities take the following steps: develop diversity standards for employment, management, and business activities; develop policies and procedures to assess compliance with the standards, and provide status reports in accordance with prescribed formats. FHFA will identify appropriate remedies in the event of noncompliance.

- ***Oversee the Enterprises' Housing Goals.*** FHFA has implemented the affordable housing goals mandated by HERA, which amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, by setting benchmarks based on the overall market. FHFA will monitor the Enterprises' support for affordable housing consistent with its responsibilities as conservator.

- ***Oversee the FHLBanks' Affordable Housing Programs.*** As part of its examination program, FHFA will continue to monitor and examine the FHLBanks' activities under the AHP and CIP programs.

Strategic Goal 3

Preserve and Conserve Enterprise Assets

Performance Goal 3.1: Minimize taxpayer losses during the Enterprises' conservatorships

As conservator of the Enterprises, FHFA is responsible for taking actions to put the Enterprises in a sound and solvent condition and to preserve and conserve their assets and property. The Enterprises continue to be the dominant force in the marketplace. At the end of the second quarter of 2012, the Enterprises owned or guaranteed over $5.2 trillion of mortgages. Market confidence in their ongoing ability to provide a stable flow of funding to the mortgage market is essential to stabilizing house prices and ensuring stability in the value of outstanding Enterprise mortgage-backed securities.

To preserve and conserve Enterprise assets, FHFA will maintain programs and strategies that have begun to ensure ongoing mortgage credit availability, assist troubled homeowners, and minimize taxpayer losses. These programs and strategies have been and continue to be critical to the conservatorships.

To encourage home retention by borrowers and minimize losses to the Enterprises, FHFA will work with the Administration and the Enterprises to avoid borrower defaults on their loans by working with lenders and servicers to offer prudent loan refinancing and modification programs.

Strategic Goal 3—Means and Strategies

- ***Provide clear expectations to Enterprise boards and management.*** FHFA will convey to the Enterprise boards and management teams conservatorship restrictions and expectations that will guide the boards and management in carrying out day-to-day operations and setting business objectives.

- ***Oversee Enterprise staffing.*** Successful accomplishment of the Conservator's preserve and conserve mandate requires qualified boards, CEOs, management and staff at each Enterprise. FHFA will continue to hire and retain boards and CEOs, and through the boards and CEO, qualified management and staff.

- ***Enhance and implement the Home Affordable Refinance Program (HARP) 2.*** FHFA will promote the implementation of the HARP 2 program by the Enterprises, including the significant program changes announced in October 2011. These changes are making HARP refinances accessible to more households with mortgages owned or guaranteed by the Enterprises. FHFA will continue its support for HARP and related home retention and loan modification programs.

- ***Implement modification and refinancing initiatives and refine them as needed.*** FHFA will establish standards and targets as benchmarks to monitor Enterprise loan modification and refinancing portfolios to ensure the Enterprises adhere to program standards and that the programs achieve their targets.

- ***Enhance the use of short sales, deeds-in-lieu, and deed-for-lease options.*** FHFA will renew its focus on tools that help households and the Enterprises to avoid foreclosure. The barriers to more successful use of these tools should be identified and removed.

- ***Promote prudent and appropriate underwriting of the Enterprises' new business.*** FHFA has taken steps to improve the quality of mortgages purchased by the Enterprises. FHFA believes the Enterprises must move toward a sustainable business model. FHFA will work to ensure new mortgages acquired by the Enterprises are soundly underwritten and priced to provide an appropriate return, encourage market competition, and promote the return of private capital to the housing markets.

- ***Align guarantee fees to risk.*** The Enterprises' pre-conservatorship guarantee pricing was characterized by cross-subsidization across product types and preferential treatment for loans with certain characteristics. To attract private capital to the mortgage market and reduce Enterprise risk exposure, FHFA will direct the Enterprises to price guarantee fees to levels that align pricing with actual risk and in an orderly manner that does not disrupt markets.

- ***Promote risk-sharing*[2].** FHFA intends to evaluate different options for the Enterprises to share risk among various parties to a transaction. Risk-sharing between the Enterprises and other market participants can help inform the Enterprises about vulnerabilities in their guarantee fee pricing. For example, if the market price to absorb a portion of the Enterprises' risk exposure is greater than the guarantee fee price, the disparity may signal that guarantee fee prices need to increase to attract private capital. More accurate price discovery would then be established through market competition.

- ***Assess and resolve remaining representation and warranties repurchase requests pertaining to the pre-conservatorship book of business.*** Representations and warranties are a long-standing means for enhancing liquidity in the mortgage origination process while protecting the Enterprises from loans not underwritten to prescribed standards. Representations and warranties are a loan originator's assurance to an Enterprise that a mortgage sold to the Enterprise has been underwritten as specified by contract. If that is found not to be the case, the originator must buy back the loan at par.

  Resolving these outstanding claims ensures the Enterprises are compensated for losses that are the legal responsibility of another party. FHFA will work with the Enterprises to align and make policies for representations and warranties more transparent.

- ***Resolve outstanding claims involving private-label MBS.*** In 2011, FHFA filed lawsuits against 18 financial institutions to recover certain losses suffered by Freddie Mac and Fannie Mae that FHFA believes are the legal responsibility of others. FHFA believes that the loans in the securities carried more risk than contained in the marketing and sales materials securitizers provided to the Enterprises. FHFA will continue to seek legal remedies to recover losses that are not the responsibility of the Enterprises.

- ***Simplify business operations and risk management where possible.*** FHFA does not allow the Enterprises to offer new products or engage in new business activities that would either present unfamiliar risk or divert resources from their core businesses and mission. FHFA will continue to require the Enterprises to focus on their existing core businesses and on loss mitigation.

- ***Identify operations or business lines that should be shrunk or eliminated, consistent with other strategic goals.*** In conservatorship, non-core or marginal business lines or products may be shrunk or eliminated to focus limited resources on preserving and conserving assets associated with core activities.

[2] This means and strategy is crosscutting and also supports Strategic Goal 4.

- ***Reduce the Enterprises' legacy portfolios*[3]*.*** FHFA will continue to encourage an orderly transition of the Enterprises' legacy portfolio through effective loss mitigation programs, monitoring market conditions, and identifying the near- and long-term effects of disposing of assets.

  The pace of reducing the portfolios may be moderated by conditions in the housing and financial markets. This strategy is designed to reduce the Enterprises portfolios and provide the best return to the taxpayer while minimizing market disruption. FHFA will also monitor the portfolios for compliance with the requirements of the Senior Preferred Stock Purchase Agreements with Treasury Department.

[3] This means and strategy is crosscutting and also supports Strategic Goal 4.

<u>Strategic Goal 4</u>

Prepare for the Future of Housing Finance in the United States

<u>Performance Goal 4.1</u>: Build a new infrastructure for the secondary mortgage market

The nation's system of housing finance is undergoing a transition that will require both short- and long-term reform strategies. There are significant public policy questions and choices ahead on how to achieve an appropriate balance between the role of the private sector and the role of the U.S. Government as housing finance conditions change.

During the deliberation process, FHFA will examine a variety of options across the housing delivery system with the objective of reducing the Enterprises' role in the secondary mortgage market and attracting the private sector to a greater role.

FHFA will improve housing and mortgage market data and information systems. FHFA will participate in public policy deliberations on housing finance reform as requested and will serve as a resource to the executive and legislative branches.

FHFA also will begin working to build a new infrastructure for the secondary mortgage market. FHFA will explore options for engaging both Fannie Mae and Freddie Mac to build a single securitization platform that will succeed their respective proprietary systems. Another important aspect to building for the future will be to create a standardized pooling and servicing agreement.

Currently, without the Enterprises, no liquid secondary market for non-government insured mortgages exists. No private sector infrastructure exists today capable of securitizing the $100 billion per month in new mortgages being originated. Mortgage interest rates would increase and mortgage availability would be limited without a robust secondary mortgage market.

FHFA will work with the Enterprises to create the necessary infrastructure Congress and market participants may use to develop the mortgage market of the future, including a common platform and national standards for mortgage securitization.

Performance Goal 4.2: Establish standards that promote a safer and more efficient housing finance system

FHFA has initiated several long-term improvements to create a common set of standards and processes at the Enterprises, and by extension the market. These include changes to mortgage servicing, servicer compensation, and improved data and transparency, to give potential market participants more confidence and result in increased liquidity from private capital. FHFA will refine these initiatives as market conditions evolve.

Performance Goal 4.3: Contract Enterprise operations

Fannie Mae and Freddie Mac have purchased or guaranteed approximately three of every four mortgages originated in the country since entering into conservatorships in September 2008. The challenge for FHFA is how to reduce the Enterprises' position in the marketplace in a safe and sound manner without comparable private-sector players. FHFA will take steps to establish a path for shifting mortgage credit risk from the Enterprises to the private sector and gradually reduce the Enterprises' proportion of the market.

Strategic Goal 4—Means and Strategies

- ***Contribute to housing finance reform through independent studies and reports.*** The United States must transition to a different system of housing finance. Alternative proposals have been introduced in Congress, with various implications for the roles of GSEs, the U.S. Government, and the private sector.

  FHFA will support reform efforts with independent studies and by evaluating and commenting on research and analyses developed by outside parties. FHFA will testify on the condition and status of the housing GSEs and on the future of housing finance as requested. FHFA will prepare reports and other communications for consideration by the legislative branch and the executive branch.

- ***Develop and analyze alternative Enterprise transition plans.*** Until Congressional action determines the future course of the U.S. housing finance system, FHFA will ensure the operations of the Enterprises are supported by standards and processes that give market participants confidence. To assist in the policy deliberations on the future of the Enterprises, FHFA will identify and evaluate alternative transition plans and respond to plans proposed by policy makers.

- ***Contribute to defining the future roles for the FHLBanks.*** In identifying future roles for the FHLBanks, FHFA will seek to preserve and capitalize on their strengths as liquidity providers, particularly for community financial institutions and community development financial institutions. Through their housing and community investment programs, the FHLBanks also have contact with a broad network of community-based institutions.

  As part of the housing reform debate, FHFA will evaluate ways in which the FHLBanks can support the transition to a more effective and efficient, liquid, safer and inclusive system of housing finance in the U.S.

- ***Build a single securitization platform.*** FHFA will work with the Enterprises to build a single securitization platform to replace current separate proprietary systems. This platform will specifically bundle mortgages into any of an array of securities structures and process and track the payments from borrowers through to investors.

- ***Create robust and standardized pooling and servicing agreements.*** Creating a robust and standardized pooling and servicing agreement is central to building for the future. FHFA will look to the Enterprises' existing practices and solicit broad public input to build a better standard. The goal is to develop an open system that promotes competition and transparency while forming a basis for a stable, liquid, and efficient secondary mortgage market, not a closed proprietary system.

- ***Develop a new system for document custody and electronic registration of mortgages, notes, titles, and liens.*** FHFA will work with the Enterprises and other stakeholders to develop a sound, efficient system for document custody and electronic registration of mortgages, notes, titles, and liens. The system will take into account local property laws and will seek to enhance the liquidity of mortgages so that borrowers may benefit from a robust secondary market for buying and selling mortgages.

- ***Complete the implementation of the Uniform Mortgage Data Program.*** FHFA has directed the Enterprises to develop uniform standards for data reporting on mortgage loans and appraisals. This Uniform Mortgage Data Program, currently being deployed, is designed to improve the consistency, quality, and uniformity of data collected in the early stages of the mortgage process. Identifying potential problems early will improve the quality of Enterprise mortgage purchases, which should reduce repurchase risk for originators.

- ***Identify and implement appropriate changes to servicing compensation.*** The Joint Servicing Compensation Initiative, led by FHFA, Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development, addresses servicer compensation and how it affects servicers' performance and their allocation of resources.

  The goals of the joint initiative are to improve service for borrowers, reduce financial risk to servicers, and provide flexibility for guarantors to better manage nonperforming loans, while promoting continued liquidity in mortgage securities markets. The joint initiative seeks broader options for mortgage servicing compensation to increase competition in mortgage servicing and origination. The initiative also aims to identify options that can be repeated in any future housing finance system.

- ***Complete implementation of the Servicing Alignment Initiative.*** The Servicing Alignment Initiative is designed to respond to poor performance in the servicing of delinquent mortgages. The initiative meets the conservatorship objectives of minimizing losses and assisting homeowners with alternatives to foreclosure.

  In 2011, FHFA instructed Freddie Mac and Fannie Mae to establish a single, consistent set of procedures for servicing Enterprise mortgages. The updated framework requires early borrower outreach, streamlines documentation requirements, simplifies mortgage modification terms and requirements, and establishes a schedule of performance-based incentive payments and penalties aimed at ensuring servicers review foreclosure alternatives in a timely manner. FHFA will continue to pursue greater transparency in the process and ways to assist delinquent borrowers.

- ***Improve transparency through Loan-Level Disclosures Initiative.*** The terms of critical aspects of a transaction must be fully disclosed for market participants to accurately evaluate risk exposure and make informed decisions. FHFA has directed the Enterprises to improve their loan-level disclosures for mortgage originations until the securities created from packaged loans are extinguished.

- ***Increase guarantee fee pricing.*** Congress has encouraged FHFA to require guarantee fee changes that reduce cross-subsidization of relatively risky loans and eliminate differences in fees across lenders not clearly based on risk. FHFA will continue to gradually increase the Enterprises' guarantee fee pricing structure to move it closer to the level that other market participants would charge to assume the credit risk.

- ***Establish loss-sharing arrangements.*** Most Enterprise mortgage securitization yields securities fully guaranteed by the Enterprises. FHFA will consider alternative securities structures that might result in private investors bearing some or all of the credit risk.

- ***Expand reliance on mortgage insurance.*** By law, most mortgages purchased or guaranteed by the Enterprises with less than 20 percent borrower equity in the property have private mortgage insurance in the first credit-loss position. Although some mortgage insurers are facing financial challenges, others may have the capital capacity to insure a portion of the mortgage credit risk currently retained by the Enterprises. Deeper mortgage insurance coverage on individual loans or through pool-level insurance policies could expand the amount of risk mortgage insurers carry.

- ***Enforce Treasury agreements to shrink retained mortgage portfolios by at least 15 percent per year.*** Under the terms of the 2008 Senior Preferred Stock Purchase Agreements, as amended in August 2012, between the Enterprises and the U.S. Department of the Treasury, each Enterprise's retained mortgage and mortgage-backed securities portfolio must decrease at least 15 percent per year until the balance of holdings reaches $250 billion.

  The Enterprises have reduced their retained portfolios during significant market uncertainty. Housing markets have been weak, the financial sector cautious, and the national economy has not rebounded as quickly as anticipated. FHFA must ensure portfolio reductions do not adversely affect market liquidity. FHFA may moderate the pace of portfolio reductions based upon conditions in the housing and financial markets.

Critical Factors that Affect Achievement of Strategic Goals

FHFA faces a series of critical economic and environmental factors that could influence the agency's success achieving goals and objectives. Weakness in domestic and global economies and uncertainty over the future of housing reform initiatives affects the financial condition, performance, and future prospects of the housing GSEs.

FHFA has to meet its conservatorship and supervisory responsibilities for the Enterprises and supervisory responsibilities for the FHLBanks against the backdrop of negative economic and environmental factors.

Global Markets

Several external factors from abroad have influenced U.S. markets in the recent past and may continue to affect them. Economic conditions and government policies, particularly in China and Europe, may affect the pricing of U.S. Government debt and the benchmarks used to price private debt. For instance, a material change in the issuance of debt by the European Financial Stability Facility may impact the demand for GSE debt. Solvency concerns in interbank markets may impact the availability of counterparties.

External regulatory policies may also affect the Enterprises and the FHLBanks. For example, capital standards adopted by the Basel Committee on Banking Supervision could increase the capital requirements of the insured depository members of the FHLBanks, dampening demand for FHLBank products (footnote 1, page 13).

The Domestic Housing Market

In past recessions, the housing sector served as a stimulus for economic recovery. Housing production would increase as pent-up demand was released and consumers took advantage of lower interest rates. Housing production stimulated wholesale and retail trades, generated employment, and boosted the financial sector and real estate services. By contrast, the housing market has not led recovery from the last recession.

Distressed sales, fears of future decline in house prices, and homebuyers' concerns about the strength of the economic recovery may continue to put downward pressure on house prices. Stabilization and recovery of housing markets will vary across markets and uncertainty could affect house prices for years to come.

Economic Conditions and the Housing GSEs

The financial condition and performance of the Enterprises and the FHLBanks are heavily dependent on the performance of the U.S. housing and mortgage markets, as well as general business and economic conditions. Unfavorable trends and conditions in the U.S. economy, including persistent unemployment, weak economic growth, declines in real estate values, and adverse trends in the mortgage lending sector, pose significant challenges for the Enterprises and the FHLBanks.

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. Increases in delinquencies, default rates, and loss severity on mortgages and mortgage-related assets could cause further write-down of investment securities and an increase in credit-related expenses.

In addition to weakness in the housing and mortgage markets, cyclical changes in the competitive landscape have adversely affected the FHLBanks' primary business, which is making advances to their members. Since October 2008, the FHLBanks have experienced a sharp decline in the demand for advances. The demand for advances has been hurt by a weak economy, resulting in decreased loan demand, and by members' access to alternative funding sources, including an increase in deposits from members' customers. In 2012 the level of advances stabilized, but at a level approximately 60 percent below its 2008 peak. Domestic and international changes to bank supervision principles, including risk-based capital and liquidity standards, have the potential to adversely affect the demand for advances in the future.

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

Duration of the Conservatorships

The Enterprises were placed into conservatorships in September 2008 in the midst of unprecedented financial crisis. As conservator, FHFA establishes restrictions and expectations for the Enterprises' boards and management, but does not manage day-to-day operations.

At the time of the conservatorship, FHFA made the practical judgment to replace the boards and senior management at each Enterprise and delegate to new boards and management day-to-day responsibility for overseeing operations. Conservatorship permitted the U.S. Government to take greater management control 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. Since being placed in conservatorships, the reconstituted boards of directors have worked with FHFA to define the operational goals in conservatorship and to complement FHFA's work to guide and oversee management in fulfilling these goals.

FHFA has three principal mandates set forth in law that direct and motivate FHFA's activities and decisions as the conservator and regulator of the Enterprises.

1. FHFA has statutory responsibility as conservator to take such actions necessary to put the regulated entity in a sound and solvent condition, carry on its business operations, and preserve and conserve the assets and property of the regulated entity. With taxpayers providing the capital supporting the Enterprises' operations, this mandate to preserve and conserve directs FHFA to minimize losses on behalf of taxpayers.

2. FHFA has a statutory responsibility to ensure the Enterprises operate in a safe and sound manner and that "the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets."

3. FHFA has a statutory responsibility under the Emergency Economic Stabilization Act of 2008 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."

FHFA has focused the Enterprises on their existing core business because of the statutory mandate to conserve assets, combined with the recognition that the Enterprises operate today only with the support of taxpayer funds. The Enterprises are not permitted to engage in new business activities, a prohibition consistent with the standard regulatory approach for addressing financially troubled financial institutions.

Housing Finance Reform Initiatives

When the Enterprises were placed in conservatorships in 2008, policymakers expected it to be a temporary measure to provide stability in the mortgage markets while they developed a new structure for housing finance. Legislation will likely change the structure and role of the housing GSEs.

Given the Enterprises' current financial condition and the terms of the U.S. Department of Treasury's financial support agreements, the Enterprises are unlikely to earn their way back to a condition that allows them to emerge from conservatorship. FHFA will continue to focus its resources on initiatives to improve Enterprise operations that can enhance the functioning of financial markets while they are in conservatorships.

In February 2011, the U.S. Department of the Treasury released a report on the future of housing finance. The report recommended using a combination of policy levers to wind down the operations of Fannie Mae and Freddie Mac, shrink the government's future role in the housing market and bring private capital back to the mortgage market. The report also presented three long-term options for the future secondary mortgage market but did not recommend a specific option.

Resources Management

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

Responsive, secure, and efficient information technology capabilities are essential to the agency accomplishing its mission. To meet the information technology demands, FHFA must provide expertise, capabilities, and services in systems development and support. The agency must also meet the needs for data, information, and knowledge management; information sharing; telecommunications and network support; and technical support and security.

FHFA will employ resource management strategies that reference the agency's strategic goals and involve staff at all levels across the agency. These management strategies will provide the examination and housing mission program staff with the opportunities, skills, tools, and materials they need in a timely and seamless manner to achieve their individual performance goals and FHFA's strategic goals.

Careful and collaborative planning will be necessary to ensure that FHFA's *Strategic Plan: Fiscal Years 2013-2017* is supported and agency resources are available and employed efficiently to support planned activities. FHFA management, technical and program support personnel, and administrative staff will work together to develop long-term workforce, acquisition, and technology plans, as well as logistical plans for space, supplies, and transportation that align with strategic and annual plans.

These plans will be modified as necessary to remain relevant in the face of shifting priorities or unanticipated external events. The plans also will identify the skills, funding, and all resources necessary to achieve planned FHFA results and specify the timeframes for acquiring the needed resources. FHFA will continue working to secure the resources needed to fulfill its critical mission and achieve the goals and outcomes outlined in this strategic plan.

Appendix A: Strategic Planning Process

FHFA developed the *Strategic Plan: Fiscal Years 2013-2017* through an inclusive process within the agency. With guidance from the Acting Director, FHFA managers and subject matter experts were actively involved with the development of the strategic goals for FHFA's *Strategic Plan: Fiscal Years 2013-2017*.

To monitor goal achievement progress, FHFA senior managers will meet quarterly to evaluate performance year-to-date and identify obstacles that might prevent the agency from achieving a goal. FHFA also will use regular management meetings, all-hands meetings, management reports, and performance review meetings to communicate and discuss organizational goals and objectives. The agency uses cross-agency internal task forces to review internal processes and products and to recommend or implement improvements. FHFA employees will align their job performance plans and individual development plans to FHFA's strategic and performance goals.

Appendix B: Consultation and Outreach

FHFA's management was actively involved in the development of this strategic plan. In addition, FHFA requested comment from Congress, stakeholders, and the public on the new FHFA *Strategic Plan: Fiscal Years 2013-2017* through a posting on our website over a 30-day period in May. All comments and suggestions were reviewed carefully.

FHFA received 27 comments from a variety of stakeholders comprising advocacy groups, industry associations and private citizens. The comments covered both the Enterprises and the FHLBanks and included suggestions addressing guarantee fee pricing, mortgage insurance pricing, underwriting standards, access and affordability, homeowner retention efforts, and REO disposition policies. Additional submissions discussed representations & warranties procedures, repurchase requests, servicer oversight, data collection standards, document custody, expansion of FHA, structure of securitization platform, and the influence of government guarantee. The comments were clear and thoughtful and brought in the perspective of a broader audience. While most of the comments did not rise to the strategic level for inclusion in a planning document, they may later be considered during program design. FHFA appreciates the commenters' participation as we work toward maintaining and building an infrastructure for the secondary mortgage market.

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 data and information 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 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 establishes appropriate remediation activities for FHFA. Committee activities provide input to FHFA's determinations of the adequacy of internal controls under Office of Management and Budget Circular A-123.

Office of Quality Assurance

FHFA has established an integrated Office of Quality Assurance for the Enterprises and the Federal Home Loan Bank supervisory functions that reports to the supervision committee. The office will ensure the integrity of the supervision program by verifying that supervision work complies with policies and procedures and is accurate, comprehensive, and effective. The Office of Quality Assurance also will ensure documentation standards promote reliable and timely support for supervisory conclusions and management decisions.

External

Office of Inspector General

The Office of Inspector General has a large role in program evaluation. The office reviews various aspects of agency operations to guard against waste, fraud, and abuse. FHFA's Office of Inspector General fills the vital role of ensuring the integrity of FHFA by conducting independent and objective audits, evaluations, and investigations, helping FHFA to achieve its mission and goals.

The Office of Inspector General also annually reviews the agency's information security program through its internal audit function and reports the results to the Office of Management and Budget, as required by the Federal Information Security Management Act. FHFA uses these audits and reviews 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 housing GSEs 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 basic requirements set forth in law, regulation, and OGE guidance.

National Archives and Records Administration

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