



NEWS

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FEDERAL HOUSING FINANCE BOARD ADOPTS REDUCED FY03 BUDGET THAT INCREASES SPENDING ON SAFETY AND SOUNDNESS

The Federal Housing Finance Board today unanimously adopted a \$27 million Fiscal Year 2003 budget that reduces spending by 8 percent while significantly increasing expenditures for the agency's supervision of the Federal Home Loan Bank System.

The FY2003 budget is \$27,065,253, a decline of \$2.4 million from the FY2002 budget of \$29,509,767.

At the same time, the FY2003 budget, which goes into effect on Oct. 1, includes a \$2.8 million increase related to the expansion of the Office of Supervision, allowing the addition of:

- 11 new bank examiners
- 4 analysts
- 1 senior risk advisor
- 2 associate directors

"Through the agency's recent reorganization and a concerted effort to find savings, we were able to substantially increase personnel and administrative support for supervision," Chairman John T. Korsmo said. "This budget reflects the Finance Board's renewed emphasis on its most important priority, ensuring the safety and soundness of the Federal Home Loan Banks."

The agency underwent a major reorganization in August with the primary goal of putting more resources into supervision of the 12 Federal Home Loan Banks. Korsmo said the budget reflected his goal of at least doubling the current staff of 11 examiners.

The Finance Board is currently advertising for the new examiners, including some who will be located outside of the agency's Washington headquarters, based in cities with Federal Home Loan Banks.

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OFFICE OF MANAGEMENT

SUBJECT: FY 2003 Agency Budget

ACTION REQUESTED:

Finance Board approval of the FY 2003 Agency Budget in the amount of \$27,065,253.

DISCUSSION:

This report provides to the Finance Board for its consideration a summary of the FY 2003 agency budget request.

The combined agency budget for FY 2003, reflecting the individual Office submissions received from Office Directors, reaches \$27,065,253, which is \$2.4 million or 8% below the FY 2002 budget of \$29,509,767. Projected expenditures for FY 2002 are expected to reach \$24.3 million, falling below the FY 2002 budget by \$5.2 million or 18%. Table 1-1, at the end of this overview, summarizes the total agency budget by expense category and identifies variances between the FY 2003 budget and the FY 2002 budget and between FY 2002 projections and the FY 2002 budget.

The \$2.4 million budgeted decrease in expenditures from FY 2002 to FY 2003 reflects both an overall determination to eliminate unnecessary spending and a renewed focus on ensuring the safety and soundness of the Federal Home Loan Bank System. A reorganization of the agency shifted the resources of the former Office of Policy, Research & Analysis into the Office of Supervision and added 18 analytical and examiner positions to the Office to be filled during FY 2003. These additional resources increase the FY 2003 budget for the newly expanded Office of Supervision \$2.8 million above the combined FY 2002 budgets of the Offices of Supervision and Policy, Research & Analysis. More than offsetting the increase in Supervision's budget are cost reductions resulting from the elimination of the Offices of Managing Director and Communications, a winding down of several large information technology projects, a "back-to-basics" plan for building and support services, and the paring of a number of currently vacant supporting positions not critical to the agency's mission. A new initiative adding \$500,000 to the budget for FY 2003 is a planned renovation of the agency office building to begin in FY 2003 and the relocation of agency staff to temporary quarters before the renovation begins.

Major contributors to the change in budget from FY 2002 to FY 2003 include:

1. **\$2.0 million decrease** related to the elimination of the Offices of Managing Director and Communications late in FY 2002. FY 2003 combined costs for the Offices of \$365,000 reflect severance payments to seven separated employees totaling \$338,000 plus salary and benefits covering the first week of October.
2. **\$2.2 million decrease** related to the Integrated Application Development (IAD) project, an information technology project primarily supporting the needs of the Office of Supervision through the development of a single integrated data base combining together in a consistent format all major agency applications (e.g., membership, CIP, CICA, AHP, and others). Much of the system development work, and implementation of the membership, FHLBank System Directory, and Designation of Directorship database redesigns will be completed by the end of FY 2002. During FY 2003, disposition of the remaining applications will be addressed (e.g., AHP, CSP, CICA, AMA) with input from the Director of the Office of Supervision.
3. **\$925,000 decrease** related to the acquisition and installation of a new Financial Management System (FMS) to provide accounting and financial reporting capabilities at this agency. During FY 2002, PeopleSoft Financials for Education & Government was acquired as a replacement to

cross-servicer National Finance Center and will be operational in FY 2003.

4. **\$869,000 decrease** in building-related costs, including a reduction in guard service expenses and a scaling back on renovation and furniture replacement projects.
5. **\$2.8 million increase** related to expansion of the Office of Supervision, including the addition of 11 new bank examiners, 4 analysts, a senior risk advisor to the Office Director, and 2 associate directors at a cost of \$2 million and an increase in resources for travel and training totaling \$314,000.
6. **\$500,000 increase** related to plans to renovate the agency office building and move staff to temporary quarters until the renovation is complete. Currently, the building is poorly configured, is practically at full capacity, and does not meet Federal safety codes. The renovation is expected to continue into FY 2004.

The following highlights provide budget assumptions and explanations of notable staff level and expense increases and decreases between the FY 2002 and FY 2003 budgets. More detailed information is available under tabs within this notebook.

Staff Level Highlights

Budgeted year-end staff levels for FY 2003 of 126.9 drop by a net of 6.4 positions below the FY 2002 budgeted level of 133.3, reflecting the elimination of 27 positions and the requested addition of 20.6 new positions.