



# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2018, through September 30, 2018



**FEDERAL HOUSING FINANCE AGENCY  
OFFICE OF INSPECTOR GENERAL**



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## Our Vision

Our vision is to be an organization that promotes excellence and trust through exceptional service to the Federal Housing Finance Agency (FHFA or Agency), Congress, and the American people. The FHFA Office of Inspector General (OIG) achieves this vision by being a first-rate independent oversight organization in the federal government that acts as a catalyst for effective management, accountability, and positive change in FHFA and holds accountable those, whether inside or outside of the federal government, who waste, steal, or abuse funds in connection with the Agency, Fannie Mae and Freddie Mac (the Enterprises), or any of the Federal Home Loan Banks (FHLBanks).

## Our Mission

OIG promotes economy, efficiency, and effectiveness and protects FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system. We accomplish this mission by providing independent, relevant, timely, and transparent oversight of the Agency to promote accountability, integrity, economy, and efficiency; advising the Director of the Agency and Congress; informing the public; and engaging in robust law enforcement efforts to protect the interests of the American taxpayers.



## Core Values

OIG's core values are integrity, respect, professionalism, and results. Accordingly, we endeavor to maintain the highest level of integrity, professionalism, accountability, and transparency in our work. We follow the facts—wherever they lead—without fear or favor, report findings that are supported by sufficient evidence in accordance with professional standards, and recommend actions tied to our findings. Our work is independent, risk based, relevant, and timely. We play a vital role in promoting the economy and efficiency in the management of the Agency and view our oversight role both prospectively (advising the Agency on internal controls and oversight, for example) and retrospectively (by assessing the Agency's oversight of Fannie Mae, Freddie Mac, and the FHLBanks in its role as supervisor, and its operation of Fannie Mae and Freddie Mac in its role as conservator).

Because FHFA has been placed in the extraordinary role of supervisor and conservator of the two Enterprises, which support over \$5 trillion in mortgage loans and guarantees, our oversight role reaches matters delegated by FHFA to the Enterprises to ensure that the Enterprises are satisfying their delegated responsibilities and that taxpayer monies are not wasted or misused.

We emphasize transparency in our oversight work to the fullest reasonable extent and in accordance with our statutory obligations to foster accountability in the use of taxpayer monies and program results. We seek to keep the Agency's Director, members of Congress, and the American taxpayers fully and currently informed of our oversight activities, including problems and deficiencies in the Agency's activities as regulator and conservator, and the need for corrective action.

Report fraud, waste, or abuse by visiting [www.fhfa.ig.gov/ReportFraud](http://www.fhfa.ig.gov/ReportFraud) or calling (800) 793-7724.

# Snapshot of OIG Accomplishments

Semiannual Reporting Period  
April 1, 2018–September 30, 2018

Reports Issued	18
Includes audits, evaluations, compliance reviews, management alerts and advisories, an investigative summary, and white papers	
Recommendations	13
Questioned Costs	\$7,700,000
Funds That Could Be Put to Better Use*	\$776,300,000
Investigative Activities:	
Indictments / Charges	45
Arrests	33
Convictions / Pleas	37
Sentencings	53
Suspension / Debarment Referrals to Other Agencies	74
Suspended Counterparty Referrals to FHFA	30
Investigative Monetary Results:	
Criminal Restitution	\$51,745,515
Criminal Fines / Special Assessments / Forfeitures	\$23,207,127
Civil Settlements	\$7,031,450,000
Investigations Total Monetary Results**	\$7,106,402,642

\*Approximates the \$727 million net present value estimate (NPV) for Fannie Mae's Northern Virginia consolidation Option C, increased by \$49.3 million for the smaller than projected amount from the sale of its three owned buildings, offset by the NPV for the Status Quo Option (which Fannie Mae never calculated and assumed to be zero for this table.) See OIG, [Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce](#) (OIG-2018-004, September 6, 2018).

\*\*Includes money ordered as the result of joint investigations with other law enforcement organizations.

# Snapshot of OIG Accomplishments

## Annual Period

October 1, 2017–September 30, 2018

Reports Issued	35
Includes audits, evaluations, compliance reviews, management alerts and advisories, an investigative summary, and white papers	
Recommendations	28
Questioned Costs	\$7,700,000
Funds That Could Be Put to Better Use*	\$776,300,000
Investigative Activities:	
Indictments / Charges	93
Arrests	72
Convictions / Pleas	86
Sentencings	89
Suspension / Debarment Referrals to Other Agencies	121
Suspended Counterparty Referrals to FHFA	57
Investigative Monetary Results:	
Criminal Restitution	\$65,842,108
Criminal Fines / Special Assessments / Forfeitures	\$40,333,713
Civil Settlements	\$9,033,450,000
Investigations Total Monetary Results**	\$9,139,625,821

\*Approximates the \$727 million net present value estimate (NPV) for Fannie Mae's Northern Virginia consolidation Option C, increased by \$49.3 million for the smaller than projected amount from the sale of its three owned buildings, offset by the NPV for the Status Quo Option (which Fannie Mae never calculated and assumed to be zero for this table.) See OIG, [Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce](#) (OIG-2018-004, September 6, 2018).

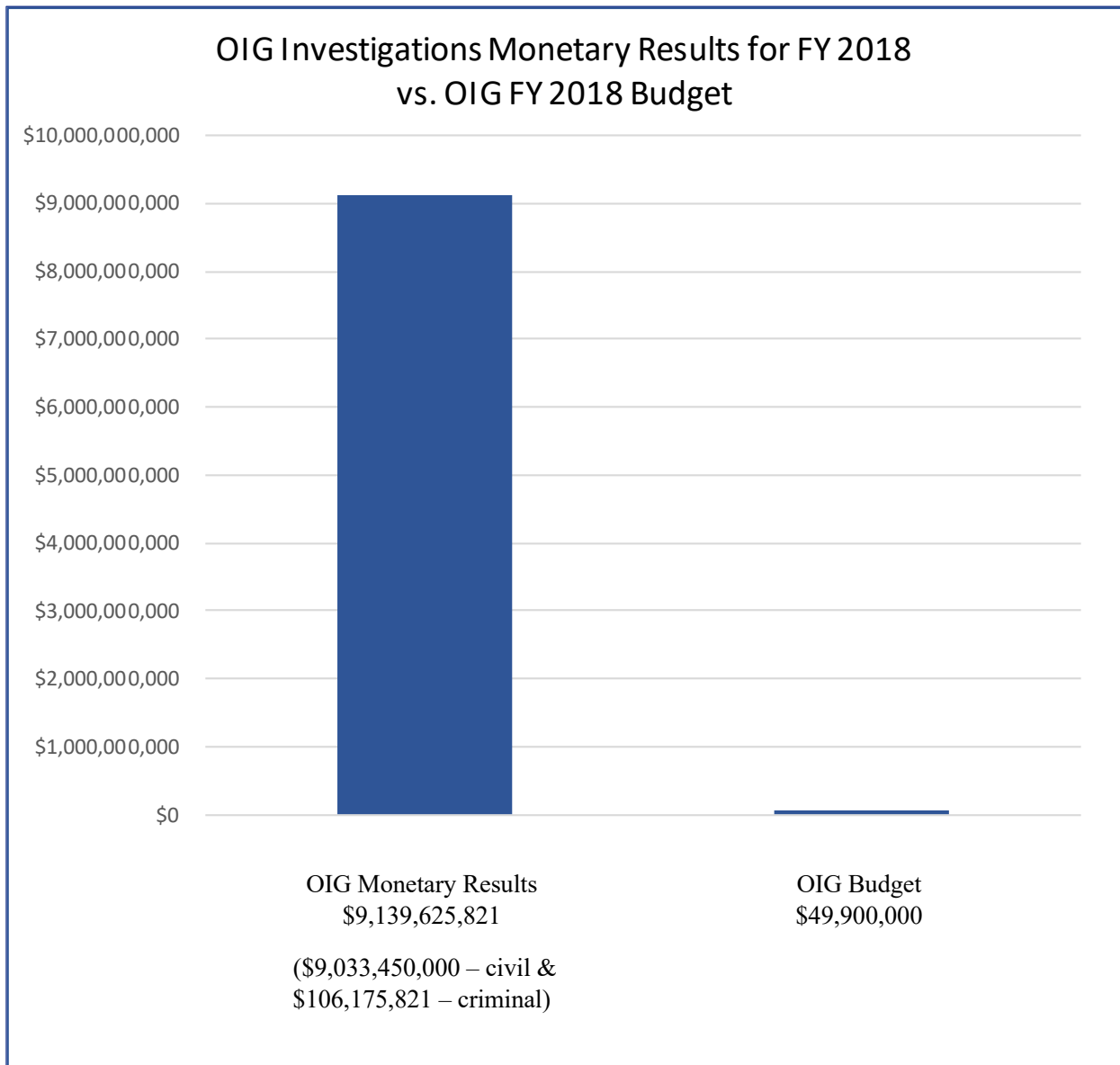
\*\*Includes money ordered as the result of joint investigations with other law enforcement organizations.

# OIG Investigations Monetary Results

## Annual Period

October 1, 2017–September 30, 2018

OIG’s Fiscal Year (FY) 2018 budget was \$49.9 million, and was unchanged from FY 2017. During FY 2018, monetary results from OIG criminal and civil investigations totaled \$9,139,625,821 and were 183 times greater than OIG’s budget.



# A Message from the Inspector General

I am pleased to present this Semiannual Report on the operations of the FHFA-OIG, which covers the period from April 1, 2018, to September 30, 2018.

FHFA has unique responsibilities in its dual roles as conservator and supervisor of the Enterprises and as supervisor of the FHLBanks. Despite their high leverage, diminished capital buffer, conservatorship status, and uncertain future, the Enterprises have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 60%. As of June 30, 2018, the Enterprises collectively reported approximately \$5.4 trillion in assets. As conservator of the Enterprises, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions that influence and affect the entire mortgage finance industry. As of June 30, 2018, the FHLBanks collectively reported roughly \$1.1 trillion in assets. Given the size and complexity of the regulated entities and the dual responsibilities of FHFA, we structure our oversight program to examine FHFA's exercise of its dual responsibilities. As a result of FHFA's dual responsibilities as conservator and supervisor, FHFA-OIG's responsibilities are broader than those of OIGs for other prudential federal financial regulators.



Laura S. Wertheimer  
Inspector General of the  
Federal Housing Finance Agency

To best leverage our resources to strengthen OIG's oversight, our work is risk-based and is focused on the four management and performance challenges facing FHFA, the Enterprises in its conservatorship, and the entities it regulates. See OIG, [Fiscal Year 2018 Management and Performance Challenges](#) (October 15, 2017).

We have established a rigorous process to develop oversight projects based on risk. Once we begin an oversight project, we follow the facts, wherever they lead, without fear or favor. We are a trusted change agent because of our demonstrated independence and objectivity: we ask difficult questions and are not persuaded by rote answers; we critically assess the evidence we obtain during our fieldwork; we report findings that are supported by sufficient evidence in accordance with professional standards; and we recommend practical solutions tied to our findings. Through our audits, evaluations and compliance reviews, we challenge FHFA to improve its oversight over its conserved entities, enhance its supervision, put more rigorous internal controls into place, and look for and eliminate fraud, waste, and abuse. Our work is independent, relevant, and timely.

During this semiannual period, we published 18 reports, including audits, evaluations, compliance reviews, management alerts and advisories, an investigative summary, and white

papers, which are available on [our website](#), and on [Oversight.gov](#), a publicly accessible, searchable website containing the latest public reports from federal Inspectors General who are members of the Council of the Inspectors General on Integrity and Efficiency. These 18 reports illustrate the broad scope of our oversight responsibilities.

Where our fact-finding has identified shortcomings, deficiencies, or processes that could be upgraded, our reports include actionable recommendations to assist FHFA in improving the effectiveness and efficiency of its operations. For this semiannual period, we issued 13 recommendations. Appendix B of this report summarizes all recommendations made by FHFA-OIG during this period, recommendations made in prior periods that remain open (and unimplemented), and closed, unimplemented recommendations. During each reporting period, we update information in Appendix B as new recommendations are issued or recommendations are closed, and we publish the updated information periodically in a [Compendium of Open Recommendations](#) on our website.

Through our robust law enforcement efforts, both civil and criminal, we protect the interests of the American taxpayer. During this reporting period, we successfully conducted a number of investigations involving civil and criminal fraud, which resulted in significant criminal prosecutions and civil fraud enforcement, including:

- 45 indictments/charges;
- 37 convictions/pleas;
- 53 defendants sentenced for an aggregate total of 181 years in prison;
- More than \$74 million in criminal restitutions, fines, special assessments, and forfeitures; and
- More than \$7 billion in civil settlements.

In many of these investigations, we worked collaboratively with our law enforcement colleagues in other agencies. A recent example was the joint investigation with the U.S. Attorney's Office for the District of Massachusetts into allegations that the Royal Bank of Scotland (RBS) made misrepresentations to investors about significant risks it failed to disclose about its residential mortgage-backed securities in the years leading to the financial crisis. RBS agreed to pay a civil money penalty of \$4.9 billion in settlement.

Through our written reports and our law enforcement efforts, both civilly and criminally, we hold institutions and their officials accountable for their actions or inactions. The work described in this Semiannual Report demonstrates the importance of effective, fair, and objective investigative oversight conducted by this Office.

The accomplishments described in this Semiannual Report are a credit to the talented and dedicated career professionals that I have the privilege to lead.

Laura S. Wertheimer  
Inspector General  
September 30, 2018

# Executive Summary

## Overview

The Federal Housing Finance Agency (FHFA or Agency) was created on July 30, 2008, when the President signed into law the **Housing and Economic Recovery Act of 2008 (HERA)**. HERA charged FHFA to serve as regulator and supervisor of **Fannie Mae** and **Freddie Mac** (the Enterprises) and of the **Federal Home Loan Banks (FHLBanks)** (collectively, the regulated entities), and the FHLBanks' fiscal agent, the Office of Finance. HERA also enhanced FHFA's resolution authority to act as conservator or receiver.

In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into **conservatorship** in an effort to stabilize the residential mortgage finance market. Concurrently, the U.S. Department of the Treasury (Treasury) entered into a **Senior Preferred Stock Purchase Agreement (PSPA)** with each Enterprise to ensure that each maintained a positive net worth going forward. Under these PSPAs, U.S. taxpayers, through Treasury, have invested nearly \$191.5 billion in the Enterprises since 2008. As conservator of the Enterprises, FHFA succeeded to all rights, titles, powers, and privileges of the Enterprises, and of any stockholder, officer, or director of the Enterprises. FHFA is authorized under HERA to:

- Operate the Enterprises and
- Take such action as may be:
  - Necessary to put the Enterprises in a sound and solvent condition and
  - Appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.<sup>1</sup>

Initially, the conservatorships were intended to be a “time out” during a period of extreme stress to stabilize the mortgage markets and promote financial stability. Now in their eleventh year, FHFA's conservatorships of the Enterprises are of unprecedented scope, scale, and complexity. Since September 2008, FHFA has served in the unique role of both conservator and supervisor of the Enterprises and supervisor of the **FHLBank System**.

HERA also authorized the establishment of OIG to oversee the work of FHFA pursuant to the **Inspector General Act of 1978**. OIG began operations in October 2010 when its first Inspector General was sworn in. As a result of FHFA's dual responsibilities as supervisor of the Enterprises and the FHLBanks, and, since 2008, as conservator of the Enterprises, OIG's oversight responsibilities are correspondingly broader than those of an Office of Inspector General for other prudential federal financial regulators.

Our mission is to promote economy, efficiency, and effectiveness and protect FHFA and the entities it regulates against fraud, waste, and abuse, contributing to the liquidity and stability of the nation's housing finance system, and advising the Director of the Agency, Congress, and the public on our findings and recommendations. In doing so, we further the Agency's statutory obligation to ensure that the regulated entities operate in a safe and sound manner and that their operations foster liquid, efficient, competitive, and resilient national housing finance markets. We also engage in robust law enforcement efforts to protect the interests of the regulated entities and the American taxpayers.

OIG's operations are funded by annual assessments that FHFA levies on the Enterprises and the FHLBanks pursuant to 12 U.S.C. § 4516. For **Fiscal Year (FY) 2018**, OIG's operating budget is \$49.9 million.

## This Report

This Semiannual Report (SAR) to the Congress summarizes the work of OIG and discusses OIG operations for the reporting period of April 1, 2018, to September 30, 2018. Among other things, this report:

- Explains OIG's risk-based oversight strategy;
- Discusses the 18 audits, evaluations, compliance reviews, management alerts and advisories, an investigative summary, and white papers published during the period;
- Highlights some of the numerous OIG investigations that resulted in 45 indictments/charges, 37 convictions/pleas, and 53 sentencing of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; more than \$74 million in criminal restitutions, fines, special assessments, and forfeitures; and more than \$7 billion in civil settlements;
- Summarizes OIG's outreach during the reporting period; and
- Reviews the status of OIG's recommendations.

Terms and phrases in bold are defined in Appendix K, *Glossary and Acronyms*. If you are reading an electronic version of this Semiannual Report, then simply move your cursor to the term or phrase and click for the definition.



# OIG's Oversight

## OIG's Risk-Based Oversight Strategy

Currently, FHFA serves as supervisor for the Enterprises and the FHLBanks and as conservator of the Enterprises. FHFA's conservatorships of the Enterprises, now in their eleventh year, are of unprecedented scope, scale, and complexity. FHFA's dual roles continue to present novel challenges. Consequently, OIG must structure its oversight program to examine FHFA's exercise of its dual responsibilities, which differ significantly from the typical federal financial regulator. Beginning in Fall 2014, OIG determined to focus its resources on programs and operations that pose the greatest financial, governance, and/or reputational risk to the Agency, the Enterprises, and the FHLBanks to best leverage its resources to strengthen oversight. We established an integrated approach to identify these programs and operations of greatest risk and published our initial risk-based plan in February 2015, which is updated annually.

Our current [Audit, Evaluation, and Compliance Plan](#), adopted in March 2018, describes FHFA's and OIG's roles and missions, explains our risk-based methodology for developing this plan, provides insight into particular risks within four areas, and generally discusses areas where we will focus our audit, evaluation, and compliance resources during the 2018 calendar year. In addition to our risk-based work plan, OIG completes work required to fulfill its statutory mandates.

An integral part of OIG's oversight is to identify and assess FHFA's top management and performance challenges and to align our

work with these challenges. On an annual basis, we assess FHFA's major management and performance challenges. In October 2017, we noted that these challenges all carried over from prior years and, if not addressed, could adversely affect FHFA's accomplishment of its mission. (See OIG, [Fiscal Year 2018 Management and Performance Challenges](#) (October 15, 2017)). During this reporting period, OIG continued to focus much of its oversight activities on identifying vulnerabilities in these areas and recommending positive, meaningful actions that the Agency could take to mitigate these risks and remediate identified deficiencies. These challenges include:

- ***Conservatorship Operations – Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters***

When then-Secretary of the Treasury Henry Paulson announced the conservatorships in September 2008, he explained that they were meant to be a “time out” during which the Enterprises would be stabilized, enabling the “new Congress and the next Administration [to] decide what role government in general, and these entities in particular, should play in the housing market.” The current FHFA Director has echoed that view, recognizing that conservatorship “cannot [and] should not be a permanent state” for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than taking them out, and the “time out” period for the conservatorships is now in its eleventh year.

While in conservatorship, the Enterprises have required almost \$191.5 billion in

financial investment from the Treasury to avert their insolvency and, through September 2018, the Enterprises have paid to the Treasury more than \$285.7 billion in dividends on its investment. Despite their high leverage, diminished capital buffer, conservatorship status, and uncertain future, the Enterprises have grown in size since being placed into conservatorship in 2008 and, according to FHFA, their combined market share of newly issued **mortgage-backed securities** is more than 60%. As of June 30, 2018, the Enterprises collectively reported approximately \$5.4 trillion in assets and approximately \$5.4 trillion in debt.

Although market conditions have improved and the Enterprises have paid dividends on Treasury's investments, the Enterprises' future profitability cannot be assured for these reasons: the wind down of their retained investment portfolios and reduction in net interest income; reduction in the value of the Enterprises' deferred tax assets due to recent federal corporate tax reform (considered by FHFA to be a short-term consequence); the level of **guarantee** fees they will be able to charge and keep; the future performance of their business segments; and the significant uncertainties involving key market drivers, such as mortgage rates, home prices, and credit standards.

Under HERA, FHFA's actions as conservator are not subject to judicial review or intervention, nor are they subject to procedural safeguards that are ordinarily applicable to regulatory activities such as rulemaking. As conservator of the Enterprises, FHFA exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions that influence and affect the entire mortgage finance industry.

- ***Supervision of the Regulated Entities – Upgrade Supervision of the Enterprises and Continue Robust Supervision of the FHLBanks***

FHFA has repeatedly stated that its effective supervision of the FHLBanks and the Enterprises is critical to ensuring their safety and soundness.

Within FHFA, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks. Section 20 of the Federal Home Loan Bank Act requires each FHLBank to be examined at least annually. FHFA's Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises. Section 1317 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, requires FHFA to conduct annual on site examinations of each Enterprise (codified at 12 U.S.C. § 4517). FHFA's annual examination program assesses the financial safety and soundness and overall risk management practices of each Enterprise through ongoing monitoring, targeted examinations, and risk assessments.

- ***Information Technology Security – Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA***

Security of information technology (IT) and IT systems continues to be a preeminent issue for businesses and individuals alike. The regulated entities, like most modern institutions, rely on numerous, complex IT systems to conduct almost every aspect of their work. These IT systems manage processes to guarantee and purchase loans, supporting more than \$5 trillion in Fannie Mae and Freddie Mac mortgage assets, and store, process, and transmit financial data and personally identifiable information (PII). Both

Enterprises and the FHLBanks have been the subject of cyberattacks, though none caused significant harm. All entities regulated by FHFA acknowledge that the substantial precautions put into place to protect their IT systems might be vulnerable, and penetration of those systems poses a material risk to their business operations. Further, the Enterprises are increasingly relying on third-party service providers, which requires the sharing of sensitive information between Enterprise and third-party systems.

- ***Counterparties and Third Parties – Enhance Oversight of the Enterprises’ Relationships with Counterparties and Third Parties***

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. That reliance exposes the Enterprises to counterparty risk—the risk that the counterparty will not meet its contractual obligations. FHFA has delegated to the Enterprises the management of their relationships with counterparties, and FHFA reviews that management largely through its supervisory activities. As participants in the mortgage market change, counterparties can affect the risks to be managed by Fannie Mae and Freddie Mac. In recent years, the Enterprises’ businesses have changed dramatically in terms of the types of institutions originating and selling mortgages to them and servicing mortgages on their behalf.

## **OIG Impact Through its Oversight Initiatives**

Since the Fall of 2014, OIG has developed and implemented new initiatives and enhanced existing processes to strengthen its oversight and provide FHFA with

critical information necessary to improve its programs and operations. Given the size and complexity of the regulated entities and the unique, dual responsibilities of FHFA, making the right choices about what we audit, evaluate, examine for compliance, and investigate in our oversight efforts is critical.

## **Office of Risk Analysis**

To assist in making those choices, we created, in 2015, the Office of Risk Analysis (ORA) to enhance our ability to focus our resources on the areas of greatest risk to FHFA. ORA is tasked with identifying, analyzing, monitoring, and prioritizing emerging and ongoing risks and with educating stakeholders on those issues. Through its work, it has contributed data and information to our annual risk-based planning process for audits, evaluations, and compliance reviews. It has also made significant contributions to our online knowledge library accessible to OIG employees.

During this reporting period, ORA issued three white papers discussing emerging and ongoing risks.

## **White Paper: FHFA Letters of Instruction to the Enterprises**

As conservator, FHFA has broad authority over the Enterprises. It exercises control over trillions of dollars in assets and billions of dollars in revenue and makes business and policy decisions that influence and affect the entire mortgage finance industry. Pursuant to its powers under HERA, FHFA has delegated authority for many matters to the Enterprises, although it has retained authority for certain significant decisions. Delegated authority can be revoked by FHFA at any time.

Shortly after FHFA placed the Enterprises into conservatorship, it issued to the

Enterprises' respective boards of directors (boards) Letters of Instruction (LOI) that defined and outlined the scope of delegated and undelegated authorities. The 2008 LOI were revised in 2012. On December 18, 2017, FHFA issued another revision to the LOI, which became effective on March 31, 2018. According to FHFA, the objective of the LOI has evolved over the years as the needs of the conservatorship have changed, and the most recent revision was intended to simplify and clarify matters requiring conservator decision or notice, given the extended duration of the conservatorships.

We summarized the history of FHFA's LOI to Fannie Mae and Freddie Mac, FHFA's process to revise the LOI in 2017, and the changes to those LOI. (See OIG, [FHFA Letters of Instruction to the Enterprises](#) (WPR-2018-004, July 23, 2018)).

### **White Paper: Freddie Mac's IMAGIN Pilot**

Under their charters, the Enterprises must obtain credit enhancement to purchase conventional mortgages with loan-to-value ratios greater than 80%. The charters allow three forms of credit enhancement, with mortgage insurance used most often. Mortgage insurance transfers a portion of the risk of mortgage **default** to an insurer. At the same time, it exposes the Enterprise to the counterparty risk that the insurer may fail to pay claims.

According to FHFA, the Agency and the Enterprises have been focused on mitigating the counterparty risk of mortgage insurers. On March 1, 2018, Freddie Mac launched a pilot called Integrated Mortgage Insurance (IMAGINSM), which is intended to mitigate such risks. Under the IMAGIN pilot program, simultaneous with purchasing single-family mortgages, Freddie Mac effectively purchases mortgage insurance from a panel of

reinsurance companies, each of which has been preapproved by Freddie Mac. The reinsurers post collateral to provide further assurance that claims will be paid.

In light of questions raised by our stakeholders about the IMAGIN pilot, we issued a white paper to explain how this pilot program works. (See OIG, [Freddie Mac's IMAGIN Pilot](#) (WPR-2018-005, September 12, 2018)).

### **White Paper: An Overview of Enterprise Appraisal Waiver Programs**

Each Enterprise has recently launched a data-driven appraisal waiver program for eligible loans. Both appraisal waiver programs may relieve lenders of representation and warranty obligations related to collateral value, and those obligations could force the repurchase of loans with such defects. Because both appraisal waiver programs, as currently structured, are modest in size and include stringent eligibility standards, the risks from these programs are small.

A recent Treasury report expresses support for the Enterprises' "limited adoption of appraisal waivers" but cautions that automated property valuations must be carefully monitored when they are used instead of traditional appraisals. We issued a white paper to explain how each appraisal waiver program works and to assess the potential risk. (See OIG, [An Overview of Enterprise Appraisal Waivers](#) (WPR-2018-006, September 14, 2018)).

### **Administrative Inquiries**

During the reporting period, OIG completed several administrative inquiries into hotline complaints and reported on its findings. Administrative inquiries provide additional, targeted oversight where specific waste, fraud, and/or abuse has been alleged. As explained in detail below, administrative inquiries

completed during this period were reported in two management alerts, two management advisories, and an investigative summary. Reports of completed inquiries keep FHFA senior management, Congress, and the public informed of risks and shortcomings in agency programs and operations.

### **Office of Compliance and Special Projects**

Recommendations to address deficiencies identified during an audit, evaluation, or administrative inquiry require meaningful follow-up and oversight to ensure that the recommendations have been fully implemented and the shortcomings that gave rise to the recommendations have been corrected. Created in December 2014, the Office of Compliance and Special Projects (OCom) has strengthened our capacity to perform compliance reviews to determine whether FHFA has fully implemented our recommendations. OCom has several responsibilities:

- *Closure of Recommendations.* When FHFA believes that its implementation efforts are well underway or that implementation is complete, FHFA provides that information to us, along with corroborating documents. We review the materials and representations submitted by the Agency to determine whether to close recommendations—and may close some recommendations based on the Agency’s representations as to corrective actions it has taken. OCom consults with each OIG division prior to the closure of a recommendation to facilitate application of a single standard across OIG for closing recommendations.
- *Tracking of Recommendations.* OCom maintains a database in which it tracks the status of all recommendations issued by OIG in its reports.

- *Validation Testing.* We are not always able to assess, at the time of closure, whether the implementation actions by FHFA meet the letter and spirit of the agreed-upon recommendation, nor can we determine, at closure, whether the underlying shortcoming has been addressed. OCom conducts validation testing on a sample of closed recommendations to hold FHFA accountable for the corrective actions it has represented it has implemented. We publish the results of that validation testing to enable our stakeholders to assess the efficacy of FHFA’s implementation of actions to correct the underlying shortcoming.

Compliance reviews enhance our ability to stimulate positive change in critical areas and promote economy, efficiency, and effectiveness at FHFA, and OCom’s validation testing is a key component. Overall, our validation testing conducted since January 2015 has found that FHFA has fully implemented 8 of 15 recommendations (53%) and has not fully implemented the remaining 7 (47%).

During this reporting period, OCom issued three compliance reviews, which are discussed in the next section, *OIG’s Oversight of FHFA’s Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period.*

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct.

# OIG's Oversight of FHFA's Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period

OIG fulfills its oversight mission through four operational offices. In this section, OIG discusses its oversight activities in three of its operational offices: the Office of Audits, the Office of Evaluations, and the Office of Compliance and Special Projects. During this reporting period, OIG published 15 reports from these offices. All of these reports relate to the four ongoing major management and performance challenges that we identified to FHFA and to the Agency's operations and **internal controls**.

## Office of Audits

The Office of Audits (OA) conducts independent performance audits with respect to the Agency's programs and operations. OA also undertakes projects to address statutory requirements and stakeholder requests. As required by the Inspector General Act, OA performs its audits in accordance with the audit standards promulgated by the Comptroller General of the United States, which are known as generally accepted government auditing standards or GAGAS.

## Office of Evaluations

The Office of Evaluations (OE) conducts independent and objective reviews, assessments, studies, and analyses of FHFA's programs and operations. Under the **Inspector General Reform Act of 2008**, IGs are required to adhere to the professional standards designated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). OE performs its evaluations in accordance with the standards CIGIE established for inspections and evaluations, which are known as the *Quality Standards for Inspection and Evaluation* (Blue Book).

## Office of Compliance and Special Projects

Typically, when an agency accepts an IG recommendation and takes steps to implement the corrective action, the agency reports on its efforts to the IG and the IG relies on materials and representations from the agency to close the recommendation. As discussed in the prior section, the validation testing conducted by OCom holds FHFA accountable for the corrective actions it has represented it has implemented.

OCom also undertakes special projects, which include reviews and administrative inquiries of hotline complaints alleging non-criminal misconduct. OCom performs its compliance reviews and special projects in accordance with the Blue Book.

## Oversight Activities This Period

As explained earlier, OIG publishes an annual Audit, Evaluation, and Compliance Plan setting forth the four risk-based areas on which it intends to focus its audit, evaluation, and compliance resources during the calendar year. That risk-based work plan aligns OIG's work to the top management and performance challenges it has identified to FHFA.

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency. As warranted, we assess whether FHFA's existing controls, including its written policies and procedures, are sufficiently robust, and whether its personnel are adequately trained on these internal controls

and comply fully with them. We now discuss our oversight activities executed by OA, OE, and OCom during the reporting period by each risk area and our assessment of certain FHFA agency operations and internal controls.

## Conservatorship Operations

### Delegated Matters

FHFA, as conservator, has delegated to each Enterprise responsibility for a significant portion of day-to-day management and risk management controls. For this governance approach to succeed, FHFA must be confident that the Enterprises' directors and committees are properly exercising the powers they have been given and fulfilling their responsibilities.

During this reporting period, we conducted one audit and completed three administrative inquiries in connection with delegated matters.

### Management Alert: Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce

As conservator of Fannie Mae, FHFA is charged with the responsibility to "preserve and conserve" its assets while operating it in a manner consonant with the public interest. During this reporting period, we issued a Management Alert about Fannie Mae's decision to consolidate and relocate its workforce in Northern Virginia from three owned office buildings and one leased building into leased space built out to Fannie Mae's specifications in a new building to be constructed by Boston Properties at the Reston Town Center. This is the fourth report we have issued regarding the reasonableness of build-out costs related to Fannie Mae's consolidation and relocation of multiple offices into leased space in metro Washington, D.C., and in Plano, Texas.

Four officials in FHFA's Division of Conservatorship (DOC), responsible for oversight of Fannie Mae's move from its Northern Virginia offices, separately reported to us that Fannie Mae faced no "action forcing" event requiring it to either incur significant costs to repair or maintain its offices, or to shrink (or grow) its square footage. The DOC officials advised that the driver for Fannie Mae's consolidation and relocation was the implementation of a Workplace Strategy (WPS) developed by Fannie Mae management (management), adopted by the Fannie Mae board, and accepted by FHFA.

During the first half of 2017, management considered three possible options for its Northern Virginia offices and workforce of approximately 4,000 individuals (of whom roughly 40% are contractors and consultants, not Fannie Mae employees). One option (Option C)—ultimately selected by management—was to continue operations in the three buildings currently owned by Fannie Mae in Northern Virginia and one leased building until 2022. At that time, Fannie Mae would consolidate and relocate the workforce into leased office space to be constructed by 2022, built out to Fannie Mae's specifications, at an estimated net present value (NPV) of \$727 million.

Our review of management's June 2017 presentation to FHFA and of its July 2017 board presentation and minutes for that meeting found no evidence that management considered a fourth option: continuing to operate out of the three owned and one leased buildings in Northern Virginia, making any repairs necessary to maintain the buildings in good working condition, and foregoing additional costs to reconfigure and restructure these buildings to implement WPS (the Status Quo Option). Management did not calculate an NPV for such an option.

Notwithstanding the lack of any “action forcing” events, management selected Option C because it fully implemented WPS at the lowest NPV. The board endorsed this course of action, which FHFA accepted.

The current FHFA Director has acknowledged that his statutory responsibilities are to “preserve and conserve” the assets and property of Fannie Mae while operating the Enterprise in a manner consonant with the public interest. FHFA has delegated responsibility for oversight of general corporate matters to the board, which is appointed by the FHFA Director. Unlike directors of public companies who owe fiduciary duties to the shareholders, directors of Fannie Mae owe those duties solely to the conservator. For matters delegated to Fannie Mae, the board acts as agent for the FHFA Director and must carry out his responsibilities to conserve and preserve Fannie Mae resources as it operates the company in the public interest. In two Management Alerts issued in 2016 involving Fannie Mae’s decision to consolidate and relocate into rented space in Washington, D.C., and in Plano, Texas, we recognized that Fannie Mae undertook a reasoned analysis of its options in each location and had a sound basis for its determination to consolidate and relocate. Here, we found that no such analysis was conducted by management and it was, in the words of FHFA, “irresponsible” and “ill advised” for the board to support management’s decision without insisting on an in-depth consideration of potentially less costly options.

FHFA, in its Management Response, maintained that we sought to substitute our judgment for that of FHFA in determining those management decisions that “can responsibly be made by Fannie Mae during this protracted period of conservatorship.” We disagreed and continue to disagree. U.S.

taxpayers, through Treasury, have invested nearly \$119.8 billion in Fannie Mae since 2008, and Fannie Mae operates under the conservatorship of the federal government. We have long recognized that FHFA, as conservator, has delegated the responsibility for a significant portion of day-to-day management to each Enterprise, which it can revoke at any time. As the Enterprises’ conservator, FHFA must do more than monitor management’s execution of delegated authority because it is ultimately responsible for such actions.

The current FHFA Director has acknowledged that his statutory responsibilities under HERA are to “preserve and conserve” the assets and property of Fannie Mae while operating it in a manner consonant with the public interest. On February 14, 2018, Fannie Mae, an entity in FHFA’s conservatorship, reported that it required an additional draw of \$3.7 billion from the Treasury to eliminate its net worth deficit, bringing the taxpayers’ investment in it to \$119.8 billion. In August 2018, FHFA approved Fannie Mae’s request to sell its three owned buildings in Northern Virginia for a total of \$90.7 million, \$49.3 million less than the \$140 million NPV baked into Option C. Because Fannie Mae will realize 35% less than projected on the sale of the buildings, the cost for its consolidation and relocation—and the NPV for Option C—will both go up while the savings from WPS promised to the board by management will go down.

As we cautioned in our 2016 Management Alert regarding Fannie Mae’s proposed build-out of its new headquarters, Fannie Mae “arguably has little incentive to cabin its costs” because “any positive net worth it does not spend on itself will be swept into the Treasury as a dividend.” In our view, the cost to consolidate and move Fannie Mae’s Northern Virginia operations under Option C (NPV \$727 million increased by



\$49.3 million for the smaller than projected amount from the sale of the buildings), less the NPV for the Status Quo Option (which Fannie Mae did not calculate), are funds that could, and should, be put to better use. A better use would include a sweep of excess funds to the U.S. Treasury as a dividend for the \$119.8 billion investment by U.S. taxpayers, pursuant to the terms of the Third Amendment to the PSPA.

To reduce the waste from Option C, we recommended that FHFA, consistent with its duties as conservator: (1) cause Fannie Mae to calculate the NPV for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties; and (2) direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the NPV for a Status Quo Option and the termination costs be lower than the adjusted NPV for Option C.

In the event that FHFA determined to permit Fannie Mae to continue with its plans, we questioned all costs to lease and build out the space in the Boston Properties building beyond the costs for the Status Quo Option. To eliminate the potential waste associated with Option C, we recommended that FHFA, consistent with its duties as conservator, direct Fannie Mae to record on its books a liability owed to the Treasury for the expenses it incurs to consolidate and relocate into leased space at Reston Town Center, built out to its specifications. We also recommended that, in the event Fannie Mae were to emerge from conservatorship, FHFA should require Fannie Mae to pay Treasury in full for this liability before dividend payments are made to private shareholders. FHFA declined to agree with our recommendations and we closed them as rejected. (See OIG, [Consolidation and Relocation of Fannie Mae's Northern](#)

[Virginia Workforce](#) (OIG-2018-004, September 6, 2018)).

### **Management Alert: Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise**

We conducted an administrative review of the adequacy of a conflict of interest disclosure made by a senior executive officer (SEO) at Fannie Mae and reported our findings in a management alert. We reviewed Fannie Mae governance documents in effect during the relevant timeframe, and found that each recognized that personal relationships can give rise to potential, apparent, or actual conflicts of interest and that complete disclosure was necessary to facilitate a fully informed analysis of the existence of an actual or apparent conflict of interest and to develop and implement adequate controls to mitigate any conflict. We also reviewed internal documents related to the SEO's disclosure, including emails, case management system logs, recusal agreements, and board materials.

We found that Fannie Mae case management system logs reflected two disclosures by the SEO regarding a potential conflict of interest relating to FHFA's consideration whether to update the credit score model requirements. Analysis of those disclosures led us to conclude that the SEO did not fully disclose all information relating to a potential conflict in order to facilitate a fully-informed conflicts analysis by the board's governance committee. We also found that the SEO knew, or should have known, from his review of a draft recusal agreement, that the potential conflict was far more substantial than the one identified in the draft agreement. Review of documents showed that the board's governance committee lacked critical information related to its conflict analysis and recusal remedy. We found that the SEO's incomplete disclosures ran afoul of Fannie

Mae’s ethics authorities and instructions to employees to “always err on the side of transparency” in conflicts disclosures and “proceed in a manner that all concerned would agree is completely beyond reproach.”

For those reasons, we recommended that, prior to the FHFA Director’s final decision on alternative credit score models, FHFA: (1) promptly perform a comprehensive review of the conflict of interest implications arising from the SEO’s possible involvement in Fannie Mae’s assessment of the potential impact of a certain matter and possible discussions with FHFA about Fannie Mae’s assessment, and (2) ensure appropriate controls are in place to mitigate any potential, apparent, or actual conflict of interest. FHFA agreed with both recommendations. (See [OIG, \*Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise\*](#) (OIG-2018-001, July 26, 2018)).

### **Audit of FHFA’s Oversight of the Enterprises’ Affordable Housing Set-Asides and Allocations**

HERA established (in 12 U.S.C. § 4567) two affordable housing funds—the Housing Trust Fund within the Department of Housing and Urban Development (HUD) and the Capital Magnet Fund within Treasury (together, the Affordable Housing Funds)—to be funded through annual set-asides by the Enterprises. (HERA also provided that a limited amount of the set-asides would go into a reserve fund (the HOPE Reserve Fund) managed by the Treasury.) HERA requires the Enterprises to transmit the annual set-aside amounts to these Funds, unless the FHFA Director suspends the transmission, upon a finding that one or more of three statutory conditions have been met.

In November 2008, the then-FHFA Director suspended the Enterprises’ affordable housing

set-asides and transmissions until further notice, upon his finding that at least one of the statutory conditions was met. In December 2014, the current FHFA Director lifted the suspension, effective January 2015. For 2015, 2016, and 2017, the Enterprises set aside and transmitted a total of \$1.251 billion to the Housing Trust Fund (\$0.678 billion), the Capital Magnet Fund (\$0.364 billion), and the HOPE Reserve Fund (\$0.209 billion, for 2015 and 2016 only). Our audit found that the Enterprises’ computations for the 2015, 2016 and 2016 set-asides and subsequent transmittals were accurate.

In our audit report, we recognized that 12 U.S.C. § 4567(b) vests the FHFA Director with authority to suspend the set-aside and transmission of the affordable housing allocations of one or both Enterprises, upon a finding that one or more of three statutory conditions have been met. We noted that the FHFA Director invoked his sole discretion under HERA when he determined that transmittal of the set-asides did not contribute, and would not contribute to the financial instability of the Enterprises. For those reasons, we made no formal recommendations to FHFA. Because FHFA is both the conservator for and supervisor of the Enterprises, in which U.S. taxpayers have invested more than \$191 billion, we advised that prudence counsels FHFA, in the future, to acknowledge and explain the reasons for changes in its critical determinations. (See [OIG, \*Audit of FHFA’s Oversight of the Enterprises’ Affordable Housing Set-Asides and Allocations\*](#) (AUD-2018-012, September 24, 2018)).

### **Management Advisory: Freddie Mac’s Reimbursement of Certain Employees’ Commuting Expenses**

We reported our findings for a completed administrative inquiry into allegations

in an anonymous hotline complaint alleging, among other things, that a Senior Vice President (SVP) of a Freddie Mac business unit engaged in wasteful spending by reimbursing the travel expenses of individuals who were hired by the SVP and commuted on a weekly basis to Freddie Mac headquarters in McLean, Virginia from hundreds of miles away.

Based on documents from FHFA and Freddie Mac, we determined that this allegation involved 19 out-of-area individuals in the SVP's business unit who were reimbursed commuting expenses totaling \$1,656,664 from 2015 to 2017. We determined that reimbursement of these commuting expenses was at odds with Freddie Mac's Travel and Business Expenses Policy (Travel Policy) which prohibited employee reimbursement "for commuting expenses for travel."

Freddie Mac proposed two corrective actions to address the violation of its Travel Policy: a three-year "transition plan" to phase out reimbursement of commuting expenses for the impacted employees, and revisions to its Travel Policy to clarify what costs (including commuting costs) are reimbursable.

While FHFA generally does not support reimbursement of expenses associated with commuting from outside the Washington, D.C. metropolitan area to Freddie Mac's headquarters and initially questioned the need for a three-year transition plan, we reported that FHFA credited Freddie Mac's assertion that reimbursement of commuting expenses was viewed by the 19 employees as part of their compensation and that a three-year transition plan was needed to retain these employees while keeping their direct compensation in line with peers. Reimbursements during the three-year transition period, which could reach roughly \$2.9 million, before the additional reported tax liabilities, shortages in tax refunds,

interests, penalties, and applicable refiling fees are paid by Freddie Mac, are to be based on actual receipts. Freddie Mac is revising its Travel Policy and causing income taxes to be paid on the reimbursed travel expenses. FHFA did not object to Freddie Mac's two proposed corrective actions.

Because the identified problems will be addressed by Freddie Mac's proposed corrective actions, we made no formal recommendations. However, as a matter of prudential operation of the conservatorship, we suggested specific follow-up by FHFA. In a written response, FHFA stated that it will review Freddie Mac's revised Travel Policy to confirm that it addresses the issues raised by the hotline complaint, and will monitor Freddie Mac's implementation of its revised Travel Policy, handling of tax issues related to the reimbursement of commuting expenses to the impacted employees from 2015 to 2017, and execution of Freddie Mac's three-year transition plan. (See OIG, [\*Management Advisory: Freddie Mac's Reimbursement of Certain Employees' Commuting Expenses\*](#) (OIG-2018-003, September 6, 2018)).

### **Non-Delegated Matters**

FHFA sets the strategic goals for its conservatorships of the Enterprises and annually issues a Scorecard to the Enterprises with objectives to further its strategic goals. FHFA uses its annual Scorecards to communicate its priorities and expectations to the Enterprises and the public. As conservator, FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value to the Enterprises.

During this reporting period, we conducted one compliance review in connection with non-delegated matters.

## **Compliance Review of FHFA’s Process for Making Changes to Conservatorship Scorecard Targets**

Currently, FHFA is operating under its 2014 Strategic Plan for the conservatorships, which has three strategic goals. To implement its 2014 Strategic Plan, FHFA issues annual Scorecards with objectives that the Enterprises are expected to achieve. To assess the Enterprises’ performance in meeting their Scorecard objectives, the Agency groups the objectives into projects. Projects, in turn, are comprised of discrete tasks called “targets” with scheduled completion dates.

In a 2016 audit report, we found that the Agency had revised Scorecard targets or extended the time within which they were to be completed, but failed to document those changes. We explained that the lack of accurate and precise records could create the misimpression that an Enterprise had completed the target when, in fact, that target had been modified or the completion date had been extended. Because compensation of the Enterprises’ executives is based, in part, on the Enterprises’ performance against the Scorecard and the Scorecard is the primary means of measuring the Enterprises’ progress against the conservator’s strategic goals, we stressed the need for accurate and precise records. We recommended that the Agency adopt standards by which revisions to Scorecard targets would be documented, and the Agency agreed. FHFA asserted that it revised its guidance process, and in June 2016, adopted Scorecard procedures, upon which we closed the recommendation.

During this reporting period, we performed a compliance review to test the Agency’s implementation of its Scorecard procedures during 2017. We found that, of the 30 projects in the 2017 Scorecard, the Agency had revised targets or their completion dates associated

with 14 of the projects. We conducted independent testing of the Agency’s process for tracking and documenting target modifications, and found that the Agency had adhered to its procedures. (See OIG, [\*Compliance Review of FHFA’s Process for Making Changes to Conservatorship Scorecard Targets\*](#) (COM-2018-004, June 20, 2018)).

## **Supervision of the Regulated Entities**

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA’s supervisory mission. Within FHFA, DER is responsible for supervision of the Enterprises and DBR is responsible for supervision of the FHLBanks.

During this reporting period, we conducted an audit and two compliance reviews in connection with FHFA’s supervision of its regulated entities.

## **FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners**

In 2011, FHFA acknowledged that the efficiency and effectiveness of its examination program was impeded by the limited number of commissioned examiners then in its employ, totaling 46. The Agency agreed to develop a Housing Finance Examiner commission program (HFE Program) with the stated objectives of providing examiners with “broad-based knowledge to conduct successful risk-based examinations” and qualifying them “to lead the examination of a major risk area at

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.”

Previously, we issued four reports on FHFA’s efforts to increase the size of its corps of commissioned examiners and two assessments of the HFE Program. During this semiannual period, we conducted a study to assess whether the HFE Program had increased the number of commissioned examiners on the FHFA staff and to determine how FHFA deployed its commissioned examiners and reported our findings. We found that the Agency has not achieved its goal of increasing the number of commissioned examiners nor is it on track to do so. Since the Agency began awarding HFE commissions in 2014, the total number of its commissioned examiners has decreased from 59 (as of June 2014) to 58 (as of June 2018). Almost seven years after the Agency committed to develop and implement a commissioning program and \$7.7 million later, the Agency’s examination program continues to be hindered by an insufficient number of commissioned examiners.

We found the HFE Program suffers from a high non-completion rate. Of the 66 examiners who enrolled when the HFE Program first began in 2013, only 6 completed the HFE Program and passed its final examination. By June 2018 more than half (36) were no longer enrolled in the HFE Program. The remaining 24 continued to be enrolled as of June 1, 2018, almost five years into the approximately four-year program, and one-third (8) had completed less than 75% of the Program’s requirements after five years. Since 2014, only 9 individuals have graduated from the HFE Program and passed the final examination.

We also assessed the Agency’s deployment of its commissioned examiners. FHFA, in its 2013 Performance and Accountability

Report, explained that the main objective of the HFE Program was to produce commissioned examiners who are “qualified to lead” examinations of major risk areas at the entities supervised by FHFA. However, that objective has not been fulfilled in practice. DBR records reflect that, for each of the last three supervisory cycles, commissioned examiners led roughly 75% of annual DBR exams. DER records show that, for the 2016 and 2017 annual supervisory cycles, DER initiated a total of 53 targeted examinations (defined by FHFA as “a deep or comprehensive assessment” of areas of high importance or risk) and none of these 53 targeted exams was led by an HFE commissioned examiner.

Based on our prior reports and the fieldwork for our September 2018 report, we hold the view that the multiple failures in FHFA’s administration of its HFE Program have derailed efforts to produce the HFE commissioned examiners that the Agency claimed to need. We questioned the \$7.7 million in costs to develop, implement, and staff the HFE Program in light of the failure of that Program to yield the anticipated results. (See OIG, [\*FHFA’s Housing Finance Examiner Commissioning Program: \\$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners\*](#) (COM-2018-006, September 6, 2018)).

### **Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors**

In a 2016 evaluation, we found that FHFA failed to communicate the most serious safety and soundness deficiencies, called matters requiring attention (MRAs), to the Enterprises’ boards. Instead, DER informed only Enterprise management of an MRA and relied on management to determine whether to communicate the fact and content of each

MRA to its board. We also found that FHFA did not require that its annual reports of examination (ROE) identify all outstanding MRAs. As a result, no mechanism existed to ensure that the boards were informed of all MRAs. We made four recommendations to address the identified shortcomings, of which FHFA agreed in full to three.

During this reporting period, OIG completed a compliance review that tested FHFA's implementation of its remedial actions in response to two agreed-upon recommendations, for the period October 13, 2016, through March 31, 2018. We first tested whether supervisory correspondence containing 29 MRAs was transmitted to the affected Audit Committee Chair, as FHFA agreed to do. While DER addressed its supervisory correspondence to Enterprise management and the affected Audit Committee Chair, we found that DER relied on Enterprise management to transmit that correspondence to the affected Audit Committee Chair. DER acknowledged to us that its examiners neither asked for, nor obtained, confirmation that the Audit Committee Chairs received the supervisory correspondence with the 29 MRAs. Instead of implementing our recommendation, DER's actions preserved the status quo, which as we cautioned in our evaluation, "creates a significant risk that management will put its own spin on the deficiencies giving rise to the MRA or will filter the information it provides to the Board." Because DER's revised supervisory guidance, as implemented, failed to carry out the recommendation agreed to by FHFA, we re-opened that recommendation.

We expect FHFA to direct DER either to amend its guidance to implement the recommendation, or require that DER put into place an internal control to ensure that it receives contemporaneous, written certification from Enterprise management that

each supervisory correspondence containing MRAs has been timely provided to the Audit Committee Chair of the affected Enterprise. In its Management Response, FHFA noted that DER would consider adoption of such an internal control.

We also tested whether FHFA identified all open MRAs and their estimated remediation dates in its annual ROEs to the Enterprises, as it had agreed to do. We found that DER fully implemented that recommendation. (See OIG, [\*Compliance Review of FHFA's Communication of Serious Deficiencies to the Enterprises' Boards of Directors\*](#) (COM-2018-005, September 5, 2018)).

### **DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not**

DBR's supervision of the FHLBanks and the Office of Finance is conducted through on-site annual examinations and off-site monitoring. FHFA requires that DBR institute a quality control (QC) process to assess examination documentation and "identify significant deviations from FHFA examination standards and supervision policy and afford the examiner-in-charge an opportunity to correct any deviations before final findings, conclusions, and ratings are communicated to the regulated entity or Office of Finance." Additionally, FHFA requires that individuals participating in a QC review be independent, i.e., they must not have participated in the examination activity under review.

We performed an audit (1) to determine whether DBR guidance for independent QC activities followed FHFA requirements; and (2) to assess whether DBR's independent QC review activities for safety and soundness

and for community investment examinations during the 2017 examination cycle met FHFA's requirements.

We found that DBR guidance for safety and soundness QC reviews was consistent with FHFA's requirements and determined that the safety and soundness QC reviews of examination work performed during the 2017 examination cycle were conducted in compliance with that guidance. However, we found that DBR guidance for community investment QC reviews was not consistent with FHFA's requirements regarding QC reviewer independence and that, in practice, the examination specialist who performed QC reviews for community investment examinations during the 2017 examination cycle was not independent of the examination process, as required by FHFA's standard.

We made two recommendations to FHFA and the Agency agreed with those recommendations. (See OIG, [\*DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not\*](#) (AUD-2018-010, August 17, 2018)).

## Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty will not meet its contractual obligations, and the risk that a counterparty will engage in fraudulent conduct. FHFA has delegated to the Enterprises the management of their relationships with counterparties and

reviews their management largely through its supervisory activities.

During this reporting period, we issued one evaluation in connection with this risk.

### **FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility**

HERA requires the Enterprises to establish and maintain procedures designed to discover and report instances of fraud and possible fraud. In 2010, FHFA promulgated a regulation to implement HERA's fraud reporting requirements. This regulation requires each Enterprise to report to the FHFA Director instances of fraud and possible fraud relating to the purchase or sale of fraudulent loans or financial instruments. In addition, FHFA Advisory Bulletin 2015-02, Enterprise Fraud Reporting, directs the Enterprises to submit monthly and quarterly fraud status reports. FHFA provided standardized templates for specifying the information the Enterprises should include in their monthly and quarterly reports. Similarly, under the Bank Secrecy Act, the Enterprises are required to report fraud and other suspicious activities to the Financial Crimes Enforcement Network, a Treasury bureau.

FHFA is responsible for examining and monitoring the Enterprises' fraud risk management practices and overseeing the Enterprises' compliance with FHFA fraud reporting requirements. FHFA recognizes that timely fraud reporting to the Agency is essential to maintain the Enterprises' safe and sound condition.

We reviewed the applicable requirements and guidance governing the Enterprises' obligations to detect and report fraud, the Enterprises' fraud detection and reporting practices, and FHFA's use of the Enterprises'

fraud reports. We found that FHFA does not make any documented, systematic use of the content of the Enterprises' fraud reports. FHFA advised us that it recently began to analyze trends of the information in the Enterprises' fraud reports. While FHFA has considered using that information for risk analysis, it has not developed any framework in which to assess that information.

Because Congress required the Enterprises to prepare fraud reports and FHFA has directed them to submit detailed monthly and quarterly reports to meet this statutory requirement, we recommended that FHFA re-evaluate the fraud information it requires from the Enterprises and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises. FHFA agreed with our recommendation. (See OIG, [\*FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility\*](#) (EVL-2018-004), September 24, 2018).

## **Agency Operations and Internal Controls**

During this reporting period, we issued four audits, a management advisory, and an investigative summary relating to our assessments whether specific FHFA controls, including its written policies and procedures, are sufficiently robust, and whether its personnel have been adequately trained on those specific controls and comply fully with them.

### **FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs**

As part of its employee benefits package, FHFA provides a transportation benefit in

the form of either a subsidy to those who commute to work using public transportation (transit subsidy program) or parking for those who drive themselves or are part of a carpool (parking program). FHFA employees may elect either a transit subsidy or parking, but cannot participate in both programs. We performed an audit to determine whether FHFA had established sufficient controls over its transportation benefits programs for FHFA employees located in the Washington, D.C., metropolitan area during calendar year 2017. (Our audit excluded OIG's controls over its transportation benefits programs for its employees.)

We found that FHFA's controls over its transportation benefits programs during calendar year 2017 were not sufficient. Certain control activities to detect and correct instances of ineligible transit subsidy recipients were not performed, which included: no periodic reconciliation of approved transit subsidy recipients to monthly activity reports produced by the Washington Metropolitan Area Transit Authority (WMATA); no periodic reconciliation of approved transit subsidy recipients to active parking recipients; and no periodic inventory counts of WMATA SmarTrip® cards registered to FHFA and undistributed parking permits. Our audit also identified practices in violation of FHFA's existing internal controls: a number of employees received both a transit subsidy benefit and a parking benefit; former employees had access to FHFA transit subsidies; FHFA's system to facilitate the administration of its transportation benefits programs lacked complete records for some recipients; and FHFA could not account for all WMATA SmarTrip® cards issued to FHFA. We also found that FHFA guidance for its transportation benefits programs was incomplete. Notwithstanding these control deficiencies, we found that few dollars



were at risk and even fewer dollars were improperly claimed during our audit period.

We made three recommendations in our report, and FHFA management agreed with the recommendations. (See OIG, [FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs](#) (AUD-2018-013, September 25, 2018)).

### **Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements**

FHFA, like other federal agencies, uses government purchase cards to make micro-purchases (purchases of \$5,000 or less, as defined by FHFA) to acquire goods and services for its operations, although use of the government purchase card is not limited to micro-purchases. For fiscal year 2017, FHFA made 1,194 purchase card transactions, totaling \$1,144,313. We audited FHFA's government purchase card program, as it was carried out during fiscal year 2017. Our objectives were to determine whether (1) the Agency's existing controls over the program provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) payments for purchase card transactions were properly supported as a valid use of Agency funds.

We found that FHFA has adequate written policies and procedures for the purchase card program. However, those policies and procedures were not always followed.

One purchase card transaction, for \$5,000 of leased seasonal decorations for the Agency's headquarters space, lacked prior

approval, was not posted timely to the cardholder's purchase card log, and did not result in the vendor receiving payment on time in compliance with Prompt Payment Act regulations. FHFA's continual use of the same vendor for leased seasonal decorations year-after-year was also contrary to micro-purchase requirements that call for such purchases to be equitably distributed among qualified vendors (to the extent practicable). Additionally, FHFA lacked a policy governing the use of funds for seasonal decorations although such a policy is urged by the Government Accountability Office in a 1987 decision concerning seasonal decoration.

We also found that FHFA personnel did not consistently document the receipt of goods and services nor obtain prior written approval by an approving official before making purchases.

We made two recommendations to FHFA to address the shortcomings identified in this audit. FHFA disagreed with our recommendation to pay a vendor interest penalties owed under the Prompt Payment Act regulations for the late payment of the leased seasonal decorations. FHFA agreed with our other recommendation to reinforce, through periodic reminders and staff training, various policies and procedures for the purchase card program. As our report also noted, in light of the money spent by FHFA over the years to lease seasonal decorations (over \$40,000 for the period December 2008 to May 2018 according to vendor documentation) and the constitutional and other considerations with such acquisitions, we believe this is an area that warrants FHFA consideration of establishing a policy on seasonal decorations. (See OIG, [Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving](#)

[Officials to Program Requirements](#) (AUD-2018-011, September 6, 2018)).

### **Audit of FHFA's Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials**

FHFA, like other agencies, and its employees use government travel cards to pay for travel expenses. For fiscal year 2017, FHFA's employees submitted 2,048 travel vouchers, totaling \$2,954,116, each of which were paid by FHFA. We audited FHFA's government travel card program policies, procedures, and transactions during fiscal year 2017. Our objectives were to determine whether (1) the Agency's existing controls over the program provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) payments for travel card transactions were properly supported as a valid use of Agency funds. We tested a sample of 68 travel vouchers as part of our audit.

We found that FHFA has adequate written policies and procedures for its travel card program. However, those policies and procedures were not always followed.

We noted exceptions to travel requirements in our sample related to: reimbursement for lodging taxes in states that exempt such taxes when a government-issued travel card is used to pay for lodging (13 vouchers); late filing of travel vouchers (20 vouchers); lack of an approved travel authorization before travel was initiated (2 vouchers); and lack of a lodging receipt (1 voucher). Additionally, we found that two FHFA employees did not use their government-issued travel cards while on official travel for lodging expenses and two other employees used their travel cards while not on official travel to pay for nominal

personal expenses. During our audit, FHFA took action to obtain refunds of the lodging taxes in the tax-exempt states and to obtain the missing lodging receipt. Also, according to FHFA, the employees who used their travel cards while not on official travel promptly paid their card balances.

We made one recommendation in our report and FHFA management agreed with the recommendation. (See OIG, [Audit of FHFA's Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials](#) (AUD-2018-014, September 25, 2018)).

### **Statutory Audit: FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2017**

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (collectively, IPIA, as amended), requires federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. IPIA was amended by IPERA to, among other things, direct federal Inspectors General to determine annually whether their respective agencies are in compliance with the statute and to submit a report to the head of the agency, Congressional oversight committees, the Comptroller General of the United States, and the controller of the Office of Management and Budget (OMB).

FHFA, through its Office of General Counsel, maintains that most requirements of the IPIA, as amended, are not applicable to the Agency because those requirements apply only to payments made with federal funds and FHFA

does not finance its operations with federal funds. That said, FHFA asserts that it has put controls in place to achieve the intent of the IPIA, as amended.

We conducted a statutory performance audit to assess the Agency's compliance with the IPIA, as amended, for fiscal year 2017. We found that FHFA complied with the applicable provisions of the IPIA, as amended, as well as related criteria established by OMB. (See OIG, [FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2017](#) (AUD-2018-009, April 26, 2018)).

### **Investigative Summary: Review of Alleged Time and Attendance Fraud by Two Senior Agency Officials**

OIG initiated an administrative inquiry into allegations in an anonymous hotline complaint that two senior FHFA officials falsified time and attendance records by reporting that they worked eight hours per day when they did not.

We compared the employees' time and attendance records against electronic records of their arrival at and, when available, departure from FHFA. FHFA employees are not required to swipe their identification badges when exiting the building. However, employees must swipe their badges to facilitate exiting the building via certain restricted elevators located by the two main entrances.

One of the two individuals named in the allegation regularly exited the building via these elevators and swiped an identification badge to do so. Comparing the electronic records of that individual's entrance to and exit from the building against the individual's time and attendance submissions, we concluded that the individual's certified time and attendance records did not accurately

reflect when the individual entered and exited FHFA's offices. Because the other individual did not exit the building via an elevator that requires a badge swipe, we did not find evidence sufficient to substantiate the allegation as to that individual.

We provided these findings to FHFA. FHFA made inquiries to both individuals, and both acknowledged that the certified time and attendance records did not reflect the time worked in FHFA's offices. The Agency concluded that both senior officials violated FHFA's policies regarding leave and work schedules, and that their conduct warrants discipline, the nature of which is under consideration by FHFA. (See OIG, [Summary of Administrative Inquiry: The Office of Inspector General's Review of Alleged Time and Attendance Fraud by Two Senior Agency Officials, OIG-2018-005](#) (September 24, 2018)).

### **Management Advisory: Use of an Agency Vehicle**

We conducted an administrative inquiry into two allegations in an anonymous hotline complaint: (1) FHFA employees inaccurately reported their time and attendance by failing to take leave to attend the funeral of an FHFA employee; and (2) a senior FHFA employee authorized staff to use an FHFA vehicle to drive to that funeral.

We found that an FHFA employee drove an Agency van to transport 13 current FHFA employees to and from the funeral of the spouse of an FHFA employee. FHFA time and attendance records for these employees show that each took several hours of annual leave on the date of the funeral.

While these employees took annual leave to attend the funeral, they used the FHFA van to travel to and from it. By definition, employees

who are on leave are not conducting official business. Use of any Agency vehicle, including the Agency van, is authorized under FHFA's Official Use of FHFA Vehicles Policy, adopted March 29, 2017, only "in furtherance of FHFA business and not for the personal use, comfort, or convenience of the employee." We found no exception in this policy to authorize employee use of an Agency vehicle for unofficial business. Employees' use of the FHFA van while on leave appears to run afoul of this policy.

Because we found only one instance where an FHFA vehicle was used outside of FHFA's Official Use of FHFA Vehicles Policy and because that one instance was of limited duration, we made no formal recommendations. Prudence counsels that FHFA consider training its employees on its Official Use of FHFA Vehicles Policy to avoid similar issues in the future.

During the course of our inquiry, we reviewed the vehicle log for this Agency van for a six-month period and found it was used only four times, including the date on which the van was used to transport employees to and from the funeral. (The remaining three were for the purpose of vehicle maintenance or upkeep). We advised that FHFA review additional logs for this vehicle to determine whether FHFA has a continuing need for it.

FHFA stated that it would issue a reminder to employees to read and comply with the Agency's vehicle use policy and particularly note the procedures and limitations for use of Agency vehicles. In addition, FHFA will review whether it has a continuing need for the van. (See OIG, [\*Management Advisory: Use of an Agency Vehicle\*](#), OIG-2018-002 (September 5, 2018)).

## Reports and Recommendations

Below are the 18 audits, evaluations, compliance reviews, management alerts and advisories, an investigative summary, and white papers published during the period. A list of the recommendations made in these OIG reports is provided in Appendix B. See [OIG's website](#) for a list of all reports issued by OIG since its inception.

Report	Date
<a href="#">FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2017</a> (AUD-2018-009)	April 26, 2018
<a href="#">Compliance Review of FHFA's Process for Making Changes to Conservatorship Scorecard Targets</a> (COM-2018-004)	June 20, 2018
<a href="#">FHFA Letters of Instruction to the Enterprises</a> (WPR-2018-004)	July 23, 2018
<a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a> (OIG-2018-001)	July 26, 2018
<a href="#">DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not</a> (AUD-2018-010)	August 17, 2018
<a href="#">Management Advisory: Use of an Agency Vehicle</a> (OIG-2018-002)	September 5, 2018
<a href="#">Compliance Review of FHFA's Communication of Serious Deficiencies to the Enterprises' Boards of Directors</a> (COM-2018-005)	September 5, 2018
<a href="#">FHFA's Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners</a> (COM-2018-006)	September 6, 2018
<a href="#">Management Advisory: Freddie Mac's Reimbursement of Certain Employees' Commuting Expenses</a> (OIG-2018-003)	September 6, 2018
<a href="#">Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce</a> (OIG-2018-004)	September 6, 2018
<a href="#">Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</a> (AUD-2018-011)	September 6, 2018

Report	Date
<a href="#"><u>Freddie Mac’s IMAGIN Pilot</u></a> (WPR-2018-005)	September 12, 2018
<a href="#"><u>An Overview of Enterprise Appraisal Waivers</u></a> (WPR-2018-006)	September 14, 2018
<a href="#"><u>FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility</u></a> (EVL-2018-004)	September 24, 2018
<a href="#"><u>Audit of FHFA’s Oversight of the Enterprises’ Affordable Housing Set-Asides and Allocations</u></a> (AUD-2018-012)	September 24, 2018
<a href="#"><u>Summary of Administrative Inquiry: The Office of Inspector General’s Review of Alleged Time and Attendance Fraud by Two Senior Agency Officials</u></a> (OIG-2018-005)	September 24, 2018
<a href="#"><u>FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</u></a> (AUD-2018-013)	September 25, 2018
<a href="#"><u>Audit of FHFA’s Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials</u></a> (AUD-2018-014)	September 25, 2018

# Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority that is exercised by its Office of Investigations (OI). OI conducts criminal and civil investigations into those, whether inside or outside of government, who waste, steal, or abuse government monies in connection with programs and operations of the Agency and the regulated entities.

Depending on the type of misconduct uncovered, OI investigations may result in criminal charges, civil complaints, and/or administrative sanctions and decisions. Civil claims can lead to settlements or verdicts with restitutions, fines, penalties, forfeitures, assessments, and exclusion of individuals or entities from participation in federal programs. Criminal charges filed against individuals or entities may result in plea agreements or trials, incarceration, restitution, fines, and penalties. This reporting period, as a result of OIG investigations, 53 defendants were sentenced to an aggregate total of 181 years in prison.



OI is staffed with special agents (SAs), investigative counsels, analysts, and attorney advisors. OIG's SAs investigate criminal matters involving allegations of fraud and misconduct.

Various elements contribute to determining the resources needed for each investigation and the length of time necessary to complete each investigation. For example, loan origination and **short sale** schemes—common types of mortgage fraud—can be labor intensive due to the extensive review and analysis of mortgage loan files and bank documents necessary to spot indications of fraud. Fraudulent loan modification schemes sometimes involve hundreds of victims. Those investigations require comprehensive document and financial records reviews, victim interviews, and the tracking of illicitly received fees charged by the perpetrators. In condominium or builder bailout scheme investigations, SAs carefully examine mortgage and bank documents to determine fraudulent patterns of behavior, including undisclosed incentives to attract buyers to purchase and invest in properties. In these investigations, SAs locate and interview investors, learn the nuances of how the scheme is organized, and determine how the perpetrators financially benefitted. In **bankruptcy** or **foreclosure-delay** schemes, SAs cull through documents received by the Enterprises and the FHLBanks, calculate scheme losses, and coordinate with the United States Trustee's offices as needed to determine if fraudulent paperwork has been submitted to initiate a bankruptcy. Other labor-intensive investigations conducted by SAs include **real estate owned (REO)**, multifamily, and adverse possession schemes. Each of these schemes presents with unique circumstances and requires many hours of intense document analysis, potential victim and witness interviews, and other investigative techniques.

To increase OIG's effectiveness, four OIG attorney-investigators have been appointed as Special Assistant U.S. Attorneys in

<b>Figure 1. OI Monetary Results</b>		
April 1, 2018 – September 30, 2018		
	<b>Criminal Investigations</b>	<b>Civil Investigations</b>
Fines*	\$ 23,207,127	\$ 0
Settlements	\$ 0	\$ 7,031,450,000
Restitutions	\$ 51,745,515	\$ 0
<b>Total</b>	<b>\$ 74,952,642</b>	<b>\$ 7,031,450,000</b>

\*Fines include criminal fines, forfeiture and special assessments, and civil fines imposed by federal court.

<b>Figure 2. Reports, Referrals, Prosecutions, and Convictions</b>	
April 1, 2018 – September 30, 2018*	
Investigative Reports**	23
Criminal Referrals to DOJ	59
Criminal Referrals to State and Local Prosecuting Authorities	12
Indictments and Informations during the Reporting Period that Resulted from Referral to Prosecutors during Prior Reporting Periods	36
<b>Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals</b>	<b>45</b>
Trials	5
Defendants Tried	7
Convictions/Pleas	37
Sentencings	53

\*All criminal charges and successive actions (pleas/convictions/sentencings) are supported with documents filed with the corresponding federal or state court. This includes both public and non-public documents (sealed). All referrals made to DOJ and to state prosecutors are captured within each investigative file; these actions are tabulated via a statistical report run in OIG’s case management system. Criminal referrals on this chart include both individuals and entities.

\*\*For the purposes of this SAR, an investigative report is defined as the Report of Investigation finalized at the conclusion of the investigation, prior to case closure.

several judicial districts throughout the country. They have been assigned criminal matters arising from OI’s investigations in the districts where they have been appointed and have pursued these investigations to conviction and sentencing.

law enforcement agencies, including the Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the HUD-OIG, Internal Revenue Service-Criminal Investigation (IRS-CI), and state and local law enforcement entities nationwide.

To maximize criminal and civil law enforcement, OI works closely with other

Since its inception, OIG has also maintained a hotline to provide easy access for individuals



to report tips, complaints, or referrals (TCRs) of alleged violations of criminal and civil laws in connection with programs and operations of the Agency. OI is responsible for conducting a preliminary review of all hotline TCRs. OIG's hotline is staffed by a third-party vendor to protect the anonymity of the callers and to provide easy access for reporting. Every TCR, whether made by telephone directly to the hotline, email, website, or in person, is sent to the hotline and logged by the hotline. Attorneys in OI conduct a preliminary assessment to determine whether further review and investigation is appropriate. During this reporting period, 614 discrete contacts to the hotline were made involving TCRs, and 128 separate TCRs were logged by the hotline.

During the semiannual reporting period, OI conducted numerous criminal, civil, and administrative investigations, which resulted in the filing of criminal charges against 45 individuals, the conviction of 37 individuals, and 53 sentencings, as well as court-ordered fines and restitution awards.

Figures 1 and 2 (see above) summarize the results obtained during this reporting period from our investigative efforts.

Below, we discuss some of our civil and criminal cases, grouped by category. In each category, we describe the nature of the crime and include a few highlights of matters investigated by OIG. For a summary of publicly reportable investigative outcomes for each category during this reporting period, see Appendices C-J.

## **Investigations: Civil Cases**

### **Residential Mortgage-Backed Securities Investigations**

During the semiannual reporting period, OI continued to participate in residential

mortgage-backed securities (RMBS) investigations by working closely with U.S. Attorneys' offices to investigate allegations of fraud committed by financial institutions and individuals in connection with RMBS. OI SAs and attorneys reviewed evidence produced by various parties and provided strategic litigation review and advice on the operations of the RMBS market.

### **Wells Fargo Agrees to Pay \$2.09 Billion Penalty for Allegedly Misrepresenting the Quality of Loans Used in Residential Mortgage-Backed Securities**

On August 1, 2018, DOJ announced that Wells Fargo Bank, N.A. and several of its affiliates (Wells Fargo) will pay a civil penalty of \$2.09 billion under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) based on the bank's alleged origination and sale of residential mortgage loans that it knew contained misstated income information and did not meet the quality that Wells Fargo represented. Investors, including federally insured financial institutions, suffered billions of dollars in losses from investing in RMBS containing loans originated by Wells Fargo.

The United States alleged that, in 2005, Wells Fargo began an initiative to double its production of subprime and Alt-A loans. As part of that initiative, Wells Fargo loosened its requirements for originating stated income loans—loans where a borrower simply states his or her income without providing any supporting income documentation.

To evaluate the integrity of its increasing volume of stated income loans, Wells Fargo subjected a sample of these loans to testing that involved comparing the borrower's tax transcripts with the income stated on the loan application. Wells Fargo's testing revealed that more than 70% of the loans sampled

had an “unacceptable” variance (greater than 20% discrepancy between the borrower’s stated income and the income reflected in the borrower’s most recent tax returns), and the average variance was approximately 65%. After receiving these results, Wells Fargo conducted further internal testing to determine if “plausible” explanations existed for the “unacceptable” variances. This additional step revealed that nearly half of the stated income loans that Wells Fargo tested had both an unacceptable variance and the absence of a plausible explanation for that variance.

The United States alleged that, despite its knowledge that a substantial portion of its stated income loans contained misstated income, Wells Fargo failed to disclose this information and instead reported to investors false debt-to-income ratios relating to the loans it sold. Wells Fargo also allegedly heralded its fraud controls while failing to disclose the income discrepancies its controls had identified. The United States further alleged that Wells Fargo took steps to insulate itself from the risks of its stated income loans by screening out many of these loans from its own loan portfolio held for investment and by limiting its liability to third parties for the accuracy of its stated income loans. Nearly half of the stated income loans Wells Fargo sold that were included in RMBS between 2005 to 2007 have defaulted, resulting in billions of dollars in losses to investors.

### **Former Colorado Mortgage Originator, a Subsidiary of Lehman Brothers, Agrees to Pay \$41 Million Related to its Conduct in Originating and Selling Mortgage Loans**

On August 2, 2018, the U.S. Attorney for the District of Colorado, announced a \$41 million settlement with Aurora Loan Services, LLC, a subsidiary of Lehman Brothers Holdings, Inc. (“LBHI”), in connection with Aurora Loan Services’ conduct in originating and

selling residential mortgage loans from 2004 through 2008. Under the resolution, Aurora Loan Services will pay \$41 million as a civil penalty under FIRREA.

Aurora Loan Services was a mortgage company headquartered in Littleton, Colorado. It worked with correspondent lenders, which made mortgage loans to homebuyers. Aurora Loan Services arranged for the sale of these loans to its parent company, Lehman Brothers Bank. Lehman Brothers Bank sold these loans to its parent, LBHI, a major investment bank. LBHI used the loans to create RMBS and sold those securities to investors.

The United States alleged that between 2004 and 2008, Aurora Loan Services represented to potential investors that the loans generally complied with its **underwriting** standards. It represented that before the loans were purchased from correspondent lenders, the loans had been scrutinized as part of Aurora Loan Services’ quality control review. Investors were also told that the loans went through Aurora Loan Services’ “pre-funding fraud detection” review, a review that identified potential “red flags” in loan files.

In practice, however, Aurora Loan Services knew that these representations were not true for many loans. Aurora Loan Services gave five large correspondent lenders “Platinum” status. Aurora Loan Services gave these Platinum lenders better pricing. Aurora Loan Services also allowed the Platinum lenders to underwrite their own loans and even to make exceptions by issuing loans that failed to meet the underwriting standards. In 2005, to save time and money, Aurora Loan Services removed the pre-funding fraud detection for all five Platinum lenders. Aurora Loan Services also decided to exempt the Platinum lenders from the quality control standards that Aurora Loan Services otherwise imposed on

other lenders before their loans were sold. Aurora Loan Services did not tell investors that these five Platinum lenders were exempt from those quality control requirements. The shortcuts and preferential treatment that Aurora Loan Services gave to the five Platinum lenders contributed, among other factors, to the deteriorating quality of some loans purchased from those lenders. Starting in late 2006, the loans purchased from the five Platinum lenders began defaulting at higher rates. Investors who bought LBHI's RMBS containing those loans suffered losses.

Aurora Loan Services has minimal assets and no employees, and will be winding down. As part of the settlement, Aurora Loan Services' parent company, Aurora Commercial Corporation, has represented that it has not resumed, and will not resume, the origination, underwriting, purchase, or sale of mortgage loans. Aurora Loan Services has ceased all mortgage activities.

### **The Royal Bank of Scotland Agrees to Pay \$4.9 Billion for Financial Crisis-Era Misconduct**

On August 14, 2018, DOJ announced a \$4.9 billion settlement with The Royal Bank of Scotland Group plc (RBS Group) resolving federal civil claims that RBS Group's subsidiaries in the United States (RBS) misled investors in the underwriting and issuing of RMBS between 2005 and 2008. The penalty is the largest imposed by DOJ for financial crisis-era misconduct at a single entity.

Using recordings of contemporaneous calls and emails of RBS executives, the settlement includes a statement of facts alleged by DOJ (but not admitted or agreed to by RBS) that details how RBS routinely made misrepresentations to investors about significant risks it failed to disclose about its RMBS.

For example, RBS's reviews of loans backing its RMBS (known as "due diligence") confirmed that loan originators had failed to follow their own underwriting procedures, and that their procedures were ineffective at preventing risky loans from being made. As a result, RBS routinely found that borrowers for the loans in its RMBS did not have the ability to repay and that appraisals for the properties guaranteeing the loans had materially inflated the property values RBS's RMBS contained, as its Chief Credit Officer put it, "total [expletive deleted] garbage" loans with "random" and "rampant" fraud that was "all disguised to, you know look okay kind of . . . in a data file." RBS never disclosed that these material risks both existed and increased the likelihood that loans in its RMBS would default.

RBS's due diligence practices did not remove fraudulent and high-risk loans from its RMBS. In fact, RBS executives internally discussed how RBS's due diligence process was "just a bunch of [expletive deleted]."

To develop and maintain business relations with originators, RBS agreed to limit the number of loans it could review (due diligence caps) and/or limit the number of materially defective loans it could remove from an RMBS (kick-out caps). As a result, RBS securitized tens of thousands of loans that it determined or suspected were fraudulent or had material problems without disclosing the nature of the loans to investors.

Through its scheme, RBS earned hundreds of millions of dollars, while simultaneously ensuring that it received repayment of billions of dollars it had lent to originators to fund the faulty loans underlying the RMBS. RBS used RMBS to push the risk of the loans, and tens of billions of dollars in subsequent losses, onto unsuspecting investors across the world, including non-profits, retirement funds, and federally-insured financial institutions. As

losses mounted, and after many mortgage lenders who originated those loans had gone out of business, RBS executives showed little regard for this misconduct and made light of it. For example, after RBS’s Head Trader received an e-mail from a friend stating “[I’m] sure your parents never imagine[d] they’d raise a son who [would] destroy the housing market in the richest nation on the planet,” the Head Trader answered, “I take exception to the word ‘destroy.’ I am more comfortable with ‘severely damage.’”

The actions of RBS resulted in significant losses to investors, including Fannie Mae and Freddie Mac, which purchased RMBS backed by defective loans.

## **Investigations: Criminal Cases**

Below we highlight OIG criminal investigations during this semiannual reporting period in a number of different categories. These investigations resulted in criminal charges, trial convictions, plea agreements, sentencing, and court-ordered fines, forfeitures, and restitution judgments.

### **Condo Conversion and Builder Bailout Schemes**

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often default and go into foreclosure, causing the lenders to suffer large losses.

### **Three Sentenced in \$21 Million Builder Bailout Fraud Scheme, California**

On July 16, 2018, Momoud Abaji was sentenced to 108 months in prison and

ordered to pay more than \$10 million in restitution, jointly and severally, for his leadership role in a “builder bailout” mortgage fraud scheme.

According to court documents, Abaji, along with several co-conspirators, operated the scheme through Excel Investments and related companies based in Santa Ana and Irvine, California. The scheme involved kickbacks from condominium builders that Abaji and his co-conspirators hid from lenders to convince them to fund loans in excess of the actual purchase price.

The co-conspirators identified condominium developments around the country where the builders were struggling to sell units and arranged to purchase multiple units at a discount. The builders benefitted by making it appear that their condominiums were selling and maintaining their value, while members of the conspiracy obtained the kickbacks.

The co-conspirators negotiated with condominium builders in California, Florida, and Arizona for discount units. The defendants bought units for themselves, their relatives, and on behalf of “**straw buyers**” whom they brought into the scheme. They identified straw buyers by looking for individuals with good credit scores and then recruited them into the scheme by giving them an upfront payment for their participation and by presenting the scheme as an investment opportunity that required no down payment and would generate income through rental payments.

To obtain mortgages for the properties, Abaji and other co-conspirators prepared loan applications with false information about the straw buyers—including fake employment, income, and assets, as well as fabricated W-2s, pay stubs, and bank statements. The mortgage applications also

included false information about the terms of the transactions, such as concealing the large kickbacks from builders through false and misleading HUD-1 forms. Because of the false statements in the fraudulent loan applications, mortgage lenders provided over \$21 million in financing to purchase more than 100 properties.

Many of these loans went into default, and mortgage lenders lost more than \$10 million after foreclosing on the properties.

In related cases, on June 5, 2018, Maher Obagi and Mohamed Salah were sentenced to 78 months and 57 months in prison, respectively, four years of supervised release, and ordered to respectively pay more than \$10 million and \$7 million in restitution, jointly and severally, for their roles in this scheme. Obagi and Salah were previously found guilty at trial for conspiracy to commit bank and wire fraud; Obagi was additionally found guilty on charges of wire fraud.

The Enterprises purchased dozens of these loans on the secondary mortgage market and suffered losses of at least \$1.3 million because of defaults and foreclosures on the properties.

### **Sentencing and Guilty Plea of Real Estate Developers in Builder Bailout Fraud Scheme, Illinois**

On July 24, 2018, Theodore Wojtas, Jr., was sentenced to 66 months in prison, 3 years of supervised release, and ordered to pay nearly \$15 million in restitution, jointly and severally, for his participation in a mortgage fraud scheme involving the marketing and sale of condominiums at a 50-acre development known as The Woods at Countryside (the Woods) in Palatine, Illinois. Wojtas, Jr., was ordered to refrain from working in the real estate industry. He was previously convicted at trial on

charges of wire fraud and mail fraud. Additionally, on September 4, 2018, Vince Manglardi pled guilty to wire fraud affecting a financial institution for his participation in the scheme.

According to court documents, Manglardi, Wojtas, Jr., and other co-defendants used an assortment of advertising methods and sales pitches—on air, online, in writing, and at live presentations—to falsely promote the purchase of condominiums at the Woods as a means to financial independence and wealth, enticing prospective condominium buyers with substantial, unsustainable financial incentives, including down payment refunds and up to three years' worth of mortgage payments, maintenance costs, and property tax payments.

Additionally, the co-defendants colluded to misrepresent and conceal material facts from banks and mortgage lenders to fraudulently induce them to approve non-conforming loans to unqualified buyers, thereby exposing lenders and the Enterprises to millions of dollars in potential losses. The Enterprises purchased over \$32 million in mortgage loans made to condominium buyers at the Woods. The fraud scheme caused more than \$16 million in losses to banks, mortgage lenders, and the Enterprises, whose combined losses are over \$1.3 million.

### **Loan Origination Schemes**

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents such as W-2s and bank statements to cause lenders to make loans they would not otherwise make.

### **Sentencing in \$11 Million Bank Fraud Case, California**

On August 27, 2018, Mohsen Hass, a.k.a. “Mohsen Hassanshahi,” was sentenced to 57 months in prison, 3 years of supervised release, and ordered to pay more than \$5.7 million in restitution for his role in a bank fraud scheme. Hass was initially charged in 2014, but he fled to Iran for nearly four years before self-surrendering in February of this year. He pled guilty in March 2018 to making false statements to a financial institution.

According to court documents, Hass bought a gas station and two car washes with more than \$11 million in loans that he obtained based on false information including fake assets that he claimed he was using for a down payment. At least one bank insider participated in the scheme and allowed loans to go through despite knowing about the false information.

Mirae Bank, a member bank of the FHLBank of San Francisco, ultimately failed and went into receivership in part due to the fraudulent conduct perpetrated by Hass.

### **Attorney Sentenced in Straw Buyer Scheme, Illinois**

On August 13, 2018, Robert Lattas, an attorney, was sentenced to 84 months in prison, two years of supervised release, and ordered to pay over \$2.7 million in restitution for his role in a straw buyer scheme. Lattas was previously found guilty after a federal trial on charges of mail and wire fraud.

According to court documents, Lattas and others helped straw buyers obtain mortgages by making false representations in mortgage application documents submitted to lenders. For example, the co-conspirators prepared

and submitted documents with fraudulent information about the buyers’ income, assets, and source of down payment. In addition, the properties involved in the scheme were sold at inflated prices. Soon after the properties were sold to the straw buyers, the mortgages went into default. There were at least five mortgage loans valued at approximately \$1.5 million involved in this scheme, causing a combined loss to the Enterprises of approximately \$800,000.

### **Sentencing in Loan Origination Fraud Scheme, Texas**

On August 21, 2018, Chukwuma Osuagwu was sentenced to 72 months in prison, five years of supervised release, and ordered to pay \$722,934 in restitution for his role in an origination fraud scheme. Osuagwu was previously found guilty at trial on charges of bank fraud and conspiracy to commit bank fraud.

According to court documents, Osuagwu and co-conspirator James Mitchell engaged in a series of fraudulent real estate transactions involving condominium units in Texas. Osuagwu was able to purchase condominium units, or assist Mitchell and others in purchasing condominium units using false documents including false bank statements, employment letters, W-2s, and paystubs. Relying on these documents, multiple banks issued mortgage loans they otherwise would not have approved. These frauds involved at least nine mortgages, two of which were secured by Fannie Mae. The total loss suffered by the banks because of the scheme was over \$1.2 million, including a loss of approximately \$185,000 to Fannie Mae.

In a related case, on April 11, 2018, Mitchell was sentenced to 30 months of probation and ordered to pay \$87,965 in restitution for his role in this scheme.

## **Former Loan Officer Sentenced for Role in \$6 Million Mortgage Fraud Scheme, New Jersey**

On May 22, 2018, Joseph Divalli was sentenced to 18 months in prison, three years supervised release, and ordered to pay \$2.3 million in restitution, jointly and severally, for his role in a mortgage fraud scheme. Divalli previously pled guilty to conspiracy to commit wire fraud, wire fraud, and tax evasion.

According to documents filed in this case and statements made in court, Divalli and co-conspirators participated in a scheme to fraudulently obtain mortgage loans for properties located in New Jersey. After recruiting straw buyers to purchase the properties, Divalli and others submitted false and fraudulent loan applications and supporting documents so the straw buyers could qualify for the loans. Divalli and others also used another co-conspirator, who worked at a bank, to create misleading certifications showing certain bank accounts held more money than they had. Divalli and his co-conspirators also submitted false appraisal reports, backdated deeds, and used unlicensed title agents to close transactions and disburse the mortgage proceeds.

Divalli also admitted to engaging in a separate scheme to modify the mortgage on his personal residence. Divalli used false payroll ledgers and earnings statements to deceive a loan officer into believing that his net earnings were lower than his actual income level, misrepresenting his financial position and qualifying him for the modification.

As a loan officer for a New Jersey mortgage lender, Divalli facilitated some of these fraudulent transactions. Overall, the scheme induced lenders to issue more than \$6 million in loans, resulting in several defaults and

exposing the Enterprises and lenders to more than \$2 million in potential losses.

## **Loan Modification and Property Disposition Schemes**

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant **upfront fees** or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position.

## **Three Sentenced in \$20 Million Mortgage Fraud Scheme, California**

On July 16, 2018, three owners and/or managers of Los Angeles, California-area foreclosure rescue companies, Dorothy Matsuba, her daughter Jamie Matsuba, and her husband Thomas Matsuba, were sentenced to 240, 135, and 168 months in prison for their roles in a foreclosure rescue scheme, respectively. The defendants were additionally ordered to serve three years of supervised release.

Dorothy Matsuba previously pled guilty to charges of conspiracy to commit wire fraud and false statements to a federally insured bank or mortgage lending business, identity theft, wire fraud, false statements to federally insured banks, and aggravated identity theft. Jamie Matsuba and Thomas Matsuba were previously convicted at trial on charges of conspiracy to commit wire fraud and making false statements to federally insured banks, identity theft, and making false statements to federally insured banks.

According to evidence presented at trial, Dorothy Matsuba, Jamie Matsuba, Thomas Matsuba, and others engaged in a scheme to

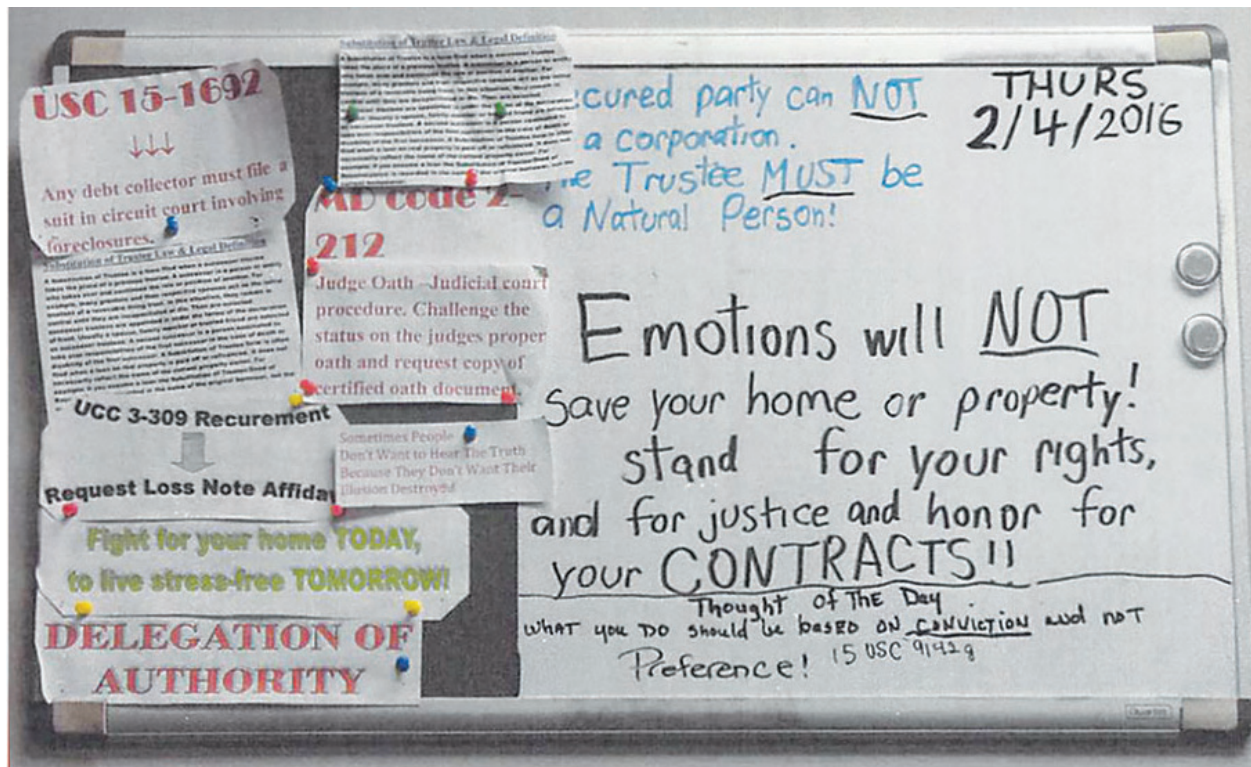
defraud financially distressed homeowners by offering to prevent foreclosure on their properties through short sales. Instead, the conspirators rented out the properties to third parties, did not pay the mortgages on the properties, and submitted false and fraudulent documents to mortgage lenders and **servicers** to delay foreclosure. The evidence further established that the conspirators obtained mortgages in the names of stolen identities. The defendants also used additional tactics, including filing bankruptcy in the names of distressed homeowners without their knowledge and fabricating liens on the distressed properties, the evidence showed.

Losses to the Enterprises and lenders are nearly \$19 million.

### Three Convicted on Charges Related to Foreclosure Prevention Fraud Scheme, Maryland

On June 20, 2018, a federal jury convicted Michelle Jordan; her husband, Michael Welsh; and Carrol Jackson on charges of conspiracy to commit wire fraud and wire fraud relating to a foreclosure prevention fraud scheme. According to the evidence presented at trial, Jordan was chief executive officer and director of MJ Loan Auditor Group, LLC (MJLAG), a limited liability company registered and doing business in Maryland. Welsh was president, vice president, and director of MJLAG.

The evidence showed that Jordan and Welsh told victim homeowners that, for a fee, MJLAG could help these homeowners modify their mortgage loans and prevent foreclosure of their homes. Jordan and Welsh falsely represented that MJLAG could help the homeowners get “free and clear” title to their homes, with no debt or liens against the property, and that MJLAG



Evidence presented at trial that Jordan told victims they should stop crying, read the board, and fight, leading them to believe she was a legitimate service provider.



could obtain money from the homeowners' lenders, typically by suing the lenders. Jordan and Welsh told homeowners that they needed to purchase one or more "audits" of the homeowners' mortgage loans in order to uncover fraud and alleged illegal acts committed by the lenders, and that these "audits" could be used as evidence in lawsuits against the lenders and in negotiating for a loan modification.

Witnesses testified that as part of the scheme, Jordan and Welsh had homeowners sign a "contract fee agreement" setting out what fees would be charged for the "audit." The contract fee agreement contained the seal of the National Association of Mortgage Underwriters (NAMU), even though the defendants and their companies had no current affiliation with NAMU. Jordan advised clients to submit baseless complaints about their lender to state and federal agencies, and to stop paying their mortgages. Jordan further advised MJLAG clients whose

homes were in foreclosure proceedings to file for bankruptcy to delay the foreclosure proceedings and as part of the process to prevent foreclosure of the clients' homes. Jordan facilitated this process by preparing bankruptcy petitions and related documents and court filings.

The jury found that the evidence proved Jordan and Welsh paid defendant Jackson, as the owner of CJ Maxx LLC Group, to prepare fraudulent documents purporting to be "Forensic Audit Reports" and "Real Estate **Securitization** Audits" relating to loans for properties owned by MJLAG clients. The victim homeowners paid money to MJLAG with the expectation of receiving assistance with modifying their mortgage loans and preventing foreclosure of their homes.

At least 20 of the properties involved in this investigation were financed through Enterprise-backed loans.

### **Eight Year Prison Sentence for Operator of Nationwide Loan Modification Scheme, California**

On July 13, 2018, Assad Suleiman was sentenced to 8 years in prison and ordered to pay over \$1.5 million in restitution for his role in a nationwide loan modification services pre-payment scheme.

According to court documents, Suleiman, along with others, operated multiple fictitious entities, including Jefferson Legal Group, Simplify Law Group, Synergy Law Center, and Wilshire Debt Advisors, that purported to offer home loan modification services to distressed homeowners. The entities charged advance fees for their services and, despite their names, were not law firms and did not employ lawyers. The co-conspirators often terminated



Photo of Jordan's wedding at a resort in Jamaica, paid for with proceeds from the fraud scheme.

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IDENTIFICATION    JUN 7 8 2017  
ADMITTED    JUN 7 8 2017

communication with victims upon receiving their initial payment.

If the co-conspirators did facilitate a trial loan modification for their victims, they falsely advised the victims to pay their trial payments, as well as other fraudulent fees such as taxes or impounds, direct to the fictitious entities they controlled, claiming the payments would be forwarded to the lenders. The lenders did not receive these payments and instead, the co-conspirators used the funds for personal gain.

During April 2018, Rosa Barraza was charged by superseding information with conspiracy, grand theft, money laundering, and unlawful loan modification advance fees.

This scheme impacted at least 387 victim homeowners. Losses to the Enterprises, lenders, and victim homeowners are over \$2.28 million.

### **Short Sale Schemes**

Short sales occur when a lender allows a borrower who is “**underwater**” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale.

### **Four Real Estate Professionals Plead Guilty in Short Sale Fraud Scheme, Arizona**

During August 2018, David Dziejdzic, Heather Dziejdzic, Jason Poyner, and Andrew Jemmett were charged by information for their roles in a short sale fraud scheme. Shortly thereafter, David and Heather Dziejdzic pled guilty to securities charges, Poyner pled guilty to misprision of felony,

and Jemmett pled guilty to false statement in a transaction insured by HUD. David Dziejdzic additionally pled guilty to a tax fraud charge.

According to their plea agreements, David and Heather Dziejdzic were licensed real estate brokers who ran a real estate brokerage business. Poyner was a licensed real estate broker and owner of Phoenix Property Group. The Dziejdzics used the “Housing Angel” website to market short sale services to distressed homeowners, including a program that allowed the homeowners to stay in their residence, touted as “sale-leaseback” using “angel” investors.

The Dziejdzics admitted to using straw buyers to buy distressed properties and to representing both sides of the real estate transaction. In some cases, they encouraged the homeowners to repurchase the properties, knowingly circumventing the arm’s length agreements.

David Dziejdzic additionally admitted to directing Jemmett, a Housing Angels employee, to add secondary liens under the name “Global Finance” to many of the properties they were trying to sell short, to recoup the time spent by Housing Angels in arranging the short sale. This money came from funds intended to satisfy the underlying obligation to the lenders. As a real estate agent, David Dziejdzic was not entitled to these funds. David Dziejdzic admitted to receiving secondary lien payments and real estate commissions for approximately 40 properties, resulting in a profit of over \$1.5 million.

Poyner, in his plea agreement, admitted to knowingly making a false statement in a settlement statement while engaged in a short sale fraud transaction with David Dziejdzic. Jemmett, in his plea agreement, admitted to knowingly and willfully making a material false statement to secure the

release of a mortgage, insured by HUD, through a short sale.

The Enterprises were investors in 35 properties involved in this scheme. Loss calculations are ongoing.

## **Multifamily Schemes**

Investigations in this category can involve a variety of fraud schemes that relate to loans purchased by the Enterprises to finance multifamily properties. Multifamily properties have five or more units and are primarily rental apartment communities.

### **Four Indicted in Multimillion Dollar Mortgage Fraud Scheme, New York**

On May 22, 2018, Frank Giacobbe, Patrick Ogiony, Kevin Morgan, and Todd Morgan were charged by indictment with wire fraud, bank fraud, and conspiracy to commit wire fraud and bank fraud for their roles in a multimillion-dollar mortgage fraud scheme.

According to the indictment, the defendants conspired to defraud financial institutions, including the Enterprises, by engaging in a variety of conduct to induce mortgage lenders to issue loans for residential apartment complexes that the lenders would not have issued had they known the truth.

The defendants allegedly conspired to provide lending institutions with false rent rolls suggesting that properties had more occupied units, at higher rental rates, and generated more income than they did; conspired to provide false information about other income received at the complexes; conspired to provide lenders with fraudulently altered leases; and conspired to prevent inspectors touring the properties from discovering vacant units by, among other things, turning on radios inside vacant

units, placing mats and shoes outside apartments as lived in, and pretending to be a tenant of an inspected unit.

The indictment alleges fraud at seven different properties that resulted in total loans issued of over \$167 million.

## **Property Management and REO Schemes**

Numerous foreclosures left the Enterprises with an inventory of REO properties. The REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises.

### **Guilty Plea of Real Estate Broker in Fannie Mae REO Fraud Scheme, Florida**

On June 19, 2018, Hollie Dustin pled guilty to wire fraud for her role in an REO fraud scheme. Dustin operated Home Choice Real Estate (HCRE), an approved Fannie Mae REO broker, and ProPreserve, Inc. (ProPreserve), a home maintenance and repair service company. HCRE hired vendors, including ProPreserve, to perform lawn and pool service maintenance on REO properties.

According to the plea agreement, once vendors provided invoices, HCRE paid the vendors for their services. HCRE then submitted the invoices and proof of payment to Fannie Mae for reimbursement. Fannie Mae, in turn, remitted checks to HCRE for reimbursement. Aware that she was not conforming to Fannie Mae's Master Listing Agreement by owning both companies, Dustin claimed she sold ProPreserve when, in fact, she remained the 100% shareholder of the company and falsely led Fannie Mae to believe that HCRE and ProPreserve were

unrelated. Dustin submitted fraudulent invoices to Fannie Mae for work purportedly performed by ProPreserve. Some of these invoices contained inflated costs or were for services rendered by other vendors. Dustin destroyed ProPreserve invoices once they were electronically submitted to Fannie Mae to conceal the fraudulent activity.

Throughout this scheme, Dustin submitted more than 550 fraudulent invoices to Fannie Mae. Once reimbursed by Fannie Mae, Dustin transferred the proceeds into accounts controlled by her or family members.

#### **46 Month Prison Sentence in Fraudulent Deed/REO Scheme, Nevada**

On September 24, 2018, Geri McKinnon was sentenced to 46 months in prison for her role in a fraudulent deed/REO scheme. McKinnon previously pled guilty to false representation concerning title and conspiracy to commit theft.

According to court documents, McKinnon submitted fictitious documents to the Clark County Recorder's Office to fraudulently obtain title to foreclosed properties. In the false documents, McKinnon purported to be the owner of three single-family homes that belonged to Fannie Mae. These misrepresentations caused Fannie Mae to suffer losses because it was unable to market the properties for more than two years.

#### **Adverse Possession, Distressed Property, and Bankruptcy Fraud Schemes**

Adverse possession schemes use illegal adverse possession (also known as "home squatting") or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or

avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners.

#### **Real Estate Agent Pleads Guilty to Defrauding Fannie Mae in Bankruptcy Fraud Scheme, Florida**

On September 11, 2018, David Morgan pled guilty to bankruptcy fraud. According to the plea agreement, Morgan was a licensed real estate agent who entered into a contract with a homeowner to sell a property in foreclosure. To prevent Fannie Mae from lawfully foreclosing on the homeowner's property, Morgan devised and executed a bankruptcy fraud scheme wherein he filed a fraudulent bankruptcy petition in the name of the homeowner, without the homeowner's knowledge or consent, just prior to the scheduled foreclosure sale date. The fraudulent bankruptcy invoked the automatic stay provision of the bankruptcy code, which prevented Fannie Mae from conducting the foreclosure sale and obtaining title to the property.

The fraudulent bankruptcy petition filed by Morgan allowed him to continue efforts to sell the property to obtain ill-gotten real estate commissions.

#### **Real Estate Broker Pleads Guilty in Bankruptcy Fraud Scheme, Florida**

On September 25, 2018, Michaelangelo Hijada pled guilty to bankruptcy fraud in a scheme to fraudulently obtain commissions from short sales of distressed properties and bankruptcy preparation fees.

According to the plea agreement, Hijada, a licensed real estate broker, owned and operated Helping Homeowners Florida. Hijada and others offered distressed homeowners facing foreclosure the

chance to save their homes through short sales or other means. To accomplish this, for a fee, Hijada and others filed fraudulent bankruptcy petitions, knowing that the filing would invoke the automatic stay provision of federal bankruptcy law and prevent creditors and guarantors from lawfully foreclosing while also allowing time for the short sale to occur.

Hijada enriched himself through real estate commissions earned through the short sale transactions as well as from bankruptcy petition preparation fees. Fannie Mae suffered losses from this scheme.

### **Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions**

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks.

#### **Former CEO and Chief Loan Officer of Failed Sonoma Valley Bank, and Borrower's California Attorney, Sentenced to Multi-Year Prison Terms for Bank Fraud and Other Crimes, California**

On August 3, 2018, Sean Cutting and Brian Melland, respectively the former chief executive officer and former chief loan officer of failed Sonoma Valley Bank (SVB), were each sentenced to 100 months in prison and three years of supervised release. Both were previously convicted at trial for conspiracy, bank fraud, wire fraud, money laundering, falsifying bank records, lying to bank regulators, and other crimes.

Additionally, David Lonich was sentenced to 80 months in prison and three years of supervised release. He was previously convicted at trial on charges of conspiracy,

bank fraud, wire fraud, attempted obstruction of justice, and other offenses. Lonich was an attorney for Bijan Madjlessi, a real estate developer who, before his death, had been indicted on charges related to this scheme.

The evidence at trial demonstrated that Cutting, Melland, and Lonich were involved in multiple schemes to defraud that involved years of excessive and illegal lending to Madjlessi, often using straw borrowers, for real estate projects in Santa Rosa and Petaluma, California.

According to the evidence admitted at trial, SVB loaned Madjlessi and the persons and entities he controlled more than \$35 million, approximately \$24.7 million more than the legal lending limit set by the bank's regulators. To conceal this high concentration of lending, Cutting and Melland, the loan officer who worked most closely with Madjlessi, recommended multimillion-dollar loans to straw borrowers, knowing that millions in proceeds from these loans would go to Madjlessi and the companies he controlled. Cutting and Melland schemed to give Madjlessi and his companies more than \$8.6 million in proceeds from loans nominally made in the names of other borrowers.

Lonich conspired with Cutting and Melland to mislead SVB into lending millions more to Madjlessi in the name of a straw borrower. The conspiracy allowed Madjlessi to illegally buy-back an approximately \$27 million debt he owed to IndyMac Bank for approximately \$4 million. At the time, IndyMac Bank had failed and been taken over by the FDIC, whose rules specifically prohibited delinquent borrowers, like Madjlessi, from purchasing their own notes at auction. Evidence at trial proved Lonich instructed the straw borrower to make false claims to federal agents and a federal grand jury related to this transaction. Nonetheless, the defendants conspired to obtain the

defaulted note by misleading SVB, the FDIC, and eventually other financial institutions, about Madjlessi's true role in the scheme.

In addition, Cutting helped Lonich gain control of additional units in Santa Rosa by issuing letters on SVB letterhead falsely stating that potential nominee buyers had sufficient funds at SVB for purchase. The Enterprises were investors for several of these units, many of which subsequently defaulted and became REO properties.

The defendants' fraud and other crimes caused the failure of SVB, resulting in losses to taxpayers of over \$47 million. Other victims include SVB's shareholders who suffered losses when the value of their securities collapsed. The court-ordered asset forfeiture of Lonich's interest in real estate is worth approximately \$20.8 million. SVB and IndyMac Bank were member banks of the FHLBank of San Francisco.

### **Former Business Owner Convicted in Federal Court for Over \$49 Million Bank Fraud, Maryland**

On August 1, 2018, Mark Gaver was convicted by a federal jury on charges of bank fraud and money laundering arising from a scheme in which he obtained over \$49 million in bank financing for his company Gaver Technologies, Inc. (GTI), using false and fraudulent financial statements, balance sheets, and certifications of outstanding accounts receivable.

According to the evidence presented at his seven-day trial, Gaver formed GTI, an information technology company based in Frederick, Maryland. Gaver submitted materially false financial documents to Santander Bank, a federally insured bank, including fraudulent audit reports and contract status reports, to establish and obtain successive increases in the line of credit from

the lender for GTI. Based upon the false documentation submitted by Gaver, the lender ultimately extended \$50 million in financing to GTI. The evidence showed that Gaver diverted a large portion of these fraudulently obtained funds to his own personal use.



Defendant Mark Gaver vacationing in Paris, France. The trip was funded with proceeds from his fraud scheme.

According to the evidence presented at trial, the bank initially approved an \$18.5 million line of credit for GTI when it took over the line of credit from another bank that had previously extended a \$16.5 million line of credit to GTI. This line of credit was subsequently increased eight separate times, growing from \$18.5 million to a total of \$49 million. On an ongoing monthly, quarterly, and annual basis, and in connection with each request by Gaver for an increase in GTI's credit line, the bank required GTI to submit specific documentation disclosing the company's financial performance and condition.

The required documentation included audited annual financial statements, quarterly balance sheets, monthly borrowing base certificates, and monthly accounts receivable aging reports. The monthly borrowing base certificates required Gaver to certify the amount of GTI's outstanding accounts receivable and were used by the bank to establish a maximum borrowing amount for GTI. Under the terms of GTI's line of credit agreement with the lender, GTI was only allowed to borrow up to 75% to 80% of the total amount of GTI's outstanding accounts receivable, and the funds loaned by the bank were only to be used by GTI for business purposes.

The evidence showed that some of the funds obtained from the lender were used by Gaver to cover regular business expenses and thereby keep GTI open, but Gaver also diverted half of the loan proceeds—approximately \$15 million—to his own personal use. For example, Gaver used loan proceeds to pay rental fees of private planes that he used for non-business purposes, as well as to pay for personal pleasure trips to France, Germany, Mexico, Jamaica, and the Bahamas. Gaver also used the funds to purchase vacation homes, including a 4,000-square foot condominium with a view of the Gulf of Mexico in Bonita Springs, Florida, a 2012 Maserati Gran Turismo, a 2011 Mercedes Benz SL Roadster, and a private membership at an exclusive golf club.

Gaver obtained a home equity line of credit that was pledged to the FHLBank of Pittsburgh. The estimated loss to Santander, a member bank of the FHLBank of Pittsburgh, is \$49 million.

### **Sentencings of Bank Executive and Real Estate Developer, Missouri**

During May 2018, Shaun Hayes and Michael Litz were sentenced for their roles

in a scheme to defraud Excel Bank and to profit from illegal insider loans. Hayes and Litz were sentenced to 68 months and 36 months in prison, respectively, as well as five years of supervised release and ordered to pay over \$5 million in restitution, jointly and severally. Hayes and Litz previously pled guilty to theft, embezzlement, or misapplication of funds by a bank officer. Hayes additionally pled guilty to bank fraud.

Excel Bank operated a Loan Production Office (LPO) in Clayton, Missouri. Hayes held a controlling stock interest in Excel Bank and managed the loan activities at the LPO. At Hayes's direction, the commercial and residential real estate lending at Excel Bank increased dramatically through the operation of the LPO. As part of his guilty plea, Hayes admitted that many of the loans made through the LPO were substandard and placed the bank at risk. He also admitted that he engaged in unlawful self-dealing by causing loans to be made that directly benefitted him and his associates while concealing his interest in the loans.

Additionally, Hayes admitted that he helped set up a loan at Excel Bank to a straw party in the amount of \$3.3 million and caused \$906,000 of the proceeds of that loan to be paid to Centru Bank to pay off a loan he and Litz had guaranteed for their entity McKnight Man I LLC. Hayes admitted that his interest in the loan was concealed from bank officials and he and Litz made no payments to Excel Bank. Hayes assisted in causing Excel Bank to make the above loan and millions of dollars in other loans to straw parties to cover the delinquent and substandard loans owed by Litz's business, Eighteen Investments, at other banks. Excel Bank lost substantial amounts on these loans.

In a related case, on April 24, 2018, Timothy Murphy was sentenced to five years of

supervised release and ordered to pay over \$4 million in restitution, jointly and severally with co-defendants in this scheme. Murphy, a loan officer, previously pled guilty to bank fraud.

Excel Bank, an FHLBank member, failed in 2012 and was taken over by the FDIC and ultimately acquired by Simmons First National Bank, an FHLBank member. At the time of failure, Excel Bank had outstanding debt to the FHLBank of Des Moines, some of which was loans pledged as collateral in this scheme. This debt passed on to the acquiring institution.

## **Law Enforcement Outreach**

OIG develops public-private partnerships where appropriate. It delivered 43 fraud awareness briefings to different audiences to raise awareness of its law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed ongoing close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; FDIC-OIG; IRS-CI; the Office of the Special Inspector General for the Troubled Asset Relief Program; the Financial Crimes Enforcement Network; state attorneys general; mortgage fraud working groups; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae and Freddie Mac to combat fraud.

During this reporting period, OIG worked with additional local and state partners, including the Hudson County, New Jersey, Prosecutor's Office; the Los Angeles Sheriff's Office; the Prince George's County, Maryland, Police Department; the Liberty County, Georgia, Sheriff's Office; the Georgia Bureau of Investigation; the Maryland

Department of Labor, Licensing, and Regulations; the Orange County, California, District Attorney's Office; the New York Department of Financial Services; the Nassau County, New York, District Attorney's Office; the Nevada Attorney General's Office; the California Department of Justice; the California Department of Insurance; the Marin County, California, Sheriff's Office; the Sonoma County, California, Sheriff's Office; the Santa Rosa, California, Police Department; the Miami-Dade, Florida, Police Department; the Wayne County, Michigan, Prosecutor's Office; the Stanislas County, California, District Attorney's Office; the Richmond County, New York, District Attorney's Office; the Michigan State Police; and the Texas State Bar.

## **Investigations: Administrative Actions**

In addition to the criminal cases brought as a result of OIG investigations, OI's investigative work regularly results in administrative referrals to other entities for action. For example, a criminal case of mortgage fraud that results in a guilty plea by a licensed real estate agent, attorney, or certified public accountant for participation in a bank fraud scheme might result in a referral by OIG to a state licensing body for disciplinary actions. When a real estate professional is prosecuted for mortgage fraud, that prosecution may cause OIG to refer the matter to another federal agency for possible suspension or debarment of that individual from participation in federal programs. During this reporting period, OIG made 74 such referrals for suspension and debarment.

## **Suspended Counterparty Referrals**

FHFA has adopted a Suspended Counterparty Program under which it issues "suspension



orders directing the regulated entities to cease or refrain” from doing business with counterparties (and their affiliates) that were previously found to have “engaged in covered misconduct.” Suspension of such counterparties is warranted to protect the safety and soundness of the regulated entities. For purposes of the program, “covered misconduct” includes convictions or administrative sanctions within the past three years based on fraud or similar misconduct in connection with the mortgage business. FHFA issues suspension orders if the misconduct “is of a type that would be likely to cause significant financial or reputational harm to a regulated entity or otherwise threaten the safe and sound operation of a regulated entity.”<sup>2</sup>

During this reporting period, OIG made 30 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program and additional suspension/ debarment referrals to other agencies, summarized in Figure 3.

**Figure 3. Administrative Actions**  
April 1, 2018 – September 30, 2018

Suspension/Debarment Referrals to Other Agencies	74
Suspended Counterparty Program Referrals to FHFA	30

# OIG's Regulatory Activities and Outreach

## Regulatory Activities

Pursuant to the Inspector General Act, OIG assesses whether proposed legislation and regulations related to FHFA are efficient, economical, legal, or susceptible to fraud and abuse. OIG is currently assessing proposed, interim final, and final rules published by FHFA in the *Federal Register*. Any recommendations or comments upon those rules will be made after these assessments conclude.

## Public and Private Partnerships, Outreach, and Communications

The Enterprises and the FHLBanks play a critical role in the U.S. housing finance system, and the financial crisis has shown that financial distress at the Enterprises can threaten the U.S. economy. American taxpayers put their money and confidence in the hands of regulators and lawmakers to restore stability to the economy, and decisions were made to invest \$191.5 billion in the Enterprises. The continuing significant role of the Enterprises and FHLBanks in housing finance demands constant supervision and monitoring. Fundamental to OIG's mission is independent and transparent oversight of Agency programs and operations and of the Enterprises to the extent FHFA, as conservator, has delegated responsibilities to them.

OIG prioritizes outreach and engagement to communicate its mission and work to members of Congress and to the public and to actively participate in government-wide oversight community activities. We continue to forge public and private partnerships to prevent fraud, encourage transparency, and ensure accountability, responsibility, and ethical leadership.

Highlights of our efforts during this reporting period include the following:

### Congress

To fulfill its mission, OIG works closely with Congress and is committed to keeping it fully apprised of our oversight of FHFA. During this semiannual reporting period, the Inspector General testified on two occasions before Congress:

- “Oversight of the Federal Housing Finance Agency” before the U.S. House of Representatives Committee on Financial Services, Subcommittee on Oversight and Investigations on April 12, 2018. The Inspector General’s written testimony is available on our website. See [\*Written Testimony of Inspector General Wertheimer before the House Oversight and Investigations Subcommittee\*](#) (April 12, 2018).
- “Oversight of the Federal Housing Finance Agency’s Role as Conservator and Regulator of the **Government Sponsored Enterprises**” before the U.S. House of Representatives Committee on Financial Services on September 27, 2018. The Inspector General’s written testimony is available on our website. See [\*Written Testimony of Inspector General Wertheimer before the House Financial Services Committee\*](#) (September 27, 2018).

During the period, OIG also provided information and briefings to congressional staff on OIG work.

## Hotline

The OIG hotline serves as a vehicle through which Agency, Enterprise, and FHLBank employees and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. For more information about OIG's hotline, including OIG contact information, visit our [hotline webpage](#).

## Close Coordination with Other Oversight Organizations

During the reporting period, we maintained active participation in coordinated oversight activities:

- ***FBI Cybercrimes Task Force***. The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG has assigned two special agents to it. This multiagency task force focuses on investigating cybercrimes. OIG made this assignment to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort will help prosecute cybercriminals and stop cyberattacks made against institutions maintaining PII, trade secrets, and financial data.
- ***CIGIE***. OIG actively participates in several CIGIE committees and working groups:
  - The Inspection and Evaluation Committee
  - The Investigations Committee
  - The Audit Committee
- ***Council of Inspectors General on Financial Oversight (CIGFO)***. CIGFO was created by the **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010** to oversee the Financial Stability

Oversight Council (FSOC), which is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. The FHFA IG is a permanent member of CIGFO, along with the IGs of Treasury, FDIC, the Securities and Exchange Commission, and others. By statute, CIGFO may convene working groups to evaluate the effectiveness and internal operations of FSOC. OIG has participated, and continues to participate, in different CIGFO working groups.

During September 2018, CIGFO approved a report titled *Top Management and Performance Challenges Facing Financial Regulatory Organizations* to consolidate and provide insight into cross-cutting management and performance challenges facing financial-sector regulatory organizations as identified by the CIGFO members, including the FHFA IG. Six cross-cutting challenges were reported:

- Enhancing Oversight of Financial Institution Cybersecurity
- Managing and Securing Information Technology at Regulatory Organizations
- Sharing Threat Information
- Readiness for Crises
- Strengthening Agency Governance
- Managing Human Capital

## Private-Public Partnerships

Housing finance professionals are on the frontlines and often have a real-time understanding of emerging threats and misconduct. We speak with officials at the FHLBanks and the Enterprises to benefit from their insights and make presentations to industry groups. Recent presentations include:

the U.S. Trustee Program (nationwide), the Los Angeles Real Estate Fraud Task Force, the Financial Industry Regulatory Authority, the Cook County Regional Organized Crime Conference, the New York City Latino Professionals Group, the South Florida International Society of Appraisers, the Nevada Financial Crimes Task Force, the Illinois Fraud Investigators Group, the Boise White Collar Crime Meeting, and local and regional banks.

# Appendices

## Appendix A: Information Required by the Inspector General Act

Section 5(a) of the Inspector General Act, as amended, provides that OIG shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing our

activities during the immediately preceding six-month periods ending March 31 and September 30.

Below, OIG presents a table that directs the reader to the pages of this report on which various information required by the Inspector General Act, as amended, may be found.

Source/Requirement	Pages
Section 5(a)(1) – A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of FHFA.	10-12, 15-31
Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	15-31, 61-117
Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	61-117
Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	32-50, 118-136
Section 5(a)(5) – A summary of each report made to the Director of FHFA about information or assistance requested and unreasonably refused or not provided.	60
Section 5(a)(6) – A listing, subdivided according to subject matter, of each audit and evaluation report issued by OIG during the reporting period and for each report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.	15-31, 57
Section 5(a)(7) – A summary of each particularly significant report.	12-13, 15-31
Section 5(a)(8) – Statistical tables showing the total number of audit and evaluation reports and the total dollar value of questioned and unsupported costs.	3, 57

Source/Requirement	Pages
Section 5(a)(9) – Statistical tables showing the total number of audit and evaluation reports and the dollar value of recommendations that funds be put to better use by management.	3, 57
Section 5(a)(10)(A) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.	57
Section 5(a)(10)(B) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency.	57
Section 5(a)(10)(C) – A summary of each audit and evaluation report issued before the commencement of the reporting period for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations.	61-117
Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.	58
Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.	58
Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.	58
Section 5(a)(14) – An appendix containing the results of any peer review conducted by another IG; or the date of the last peer review if no peer review was conducted during the reporting period.	58-59
Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	58-59
Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.	58-59
Section 5(a)(17) – Statistical tables showing, for the reporting period, the total number of: investigative reports issued; persons referred to DOJ for criminal prosecution; persons referred to State and local prosecuting authorities for criminal prosecution; and indictments and criminal informations that resulted from any prior referral to prosecuting authorities.	33

Source/Requirement	Pages
Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).	33
Section 5(a)(19) – A report on each investigation conducted by OIG involving a senior Government employee where allegations of misconduct were substantiated, including a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.	59-60
Section 5(a)(20) – A detailed description of any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation and what, if any, consequences FHFA imposed to hold that official accountable.	59-60
Section 5(a)(21) – A detailed description of any attempt by FHFA to interfere with the independence of OIG, including with budget constraints designed to limit OIG’s capabilities, and incidents where FHFA has resisted or objected to OIG oversight activities or restricted or significantly delayed access to information.	60
Section 5(a)(22)(A) – Detailed descriptions of the particular circumstances of each evaluation and audit conducted by OIG that is closed and was not disclosed to the public.	60
Section 5(a)(22)(B) – Detailed descriptions of the particular circumstances of each investigation conducted by OIG involving a senior Government employee that is closed and was not disclosed to the public.	59-60

## Reports Identifying Questioned Costs, Unsupported Costs, and Funds to Be Put to Better Use by Management Issued During the Semiannual Period

Section 5(a)(6) of the Inspector General Act, as amended, requires that OIG list its audit reports, inspection reports, and evaluation reports issued during the semiannual period and include for each report, where applicable, questioned costs, unsupported costs, and funds to be put to better use. Section 5(a)(8) and section 5(a)(9), respectively, require OIG to publish statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of questioned and unsupported costs, and of recommendations that funds be put to better use by management. Oversight conducted by OIG is not limited to reports issued from inspections, audits, and evaluations. OIG also issues other reports in furtherance of its mission, including management alerts and advisories, special reports, and compliance reviews.

During this semiannual reporting period, in our report, [\*FHFA's Housing Finance Examiner Commissioning Program: \\$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners\*](#) (COM-2018-006, September 6, 2018), we questioned whether the \$7.7 million expended in developing, implementing, and staffing the HFE Program has yielded the anticipated results.

In our Management Alert entitled, [\*Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce\*](#) (OIG-2018-004, September 6, 2018), we stated that, should FHFA permit Fannie Mae to continue with its plans to consolidate and relocate into newly leased space in a building to be constructed at Reston Town Center by

Boston Properties, we question all costs to lease and build out the space in the Boston Properties building beyond the costs for the Status Quo Option—an indeterminate amount at this time. We also noted that the estimated net present value for Option C (increased by \$49.3 million for the smaller-than-anticipated amount from the time of sale proceeds of the three buildings), offset by the net present value for the Status Quo Option (which Fannie Mae never calculated), constitutes, in our view, funds that could, and should, be put to better use.

## Audit and Evaluation Reports with No Management Decision

Section 5(a)(10)(A) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. There were no audit, inspection, or evaluation reports issued before April 1, 2018, that await a management decision.

## No Agency Response Within 60 Days

Section 5(a)(10)(B) of the Inspector General Act, as amended, requires that OIG report on each audit, inspection, and evaluation report issued before the commencement of the reporting period for which no FHFA comment was returned within 60 days of providing the report to the Agency. There were no audit, inspection, or evaluation reports issued before April 1, 2018, for which OIG did not receive a response within 60 days of providing the report to the Agency for comment.



## Significant Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the six-month reporting period ended September 30, 2018, there were no significant revised management decisions by FHFA.

## Significant Management Decisions with Which the Inspector General Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that OIG report information concerning any significant management decision with which the Inspector General is in disagreement. During the six-month reporting period ended September 30, 2018, there was one significant management decision by FHFA with which the Inspector General disagreed.

OIG disagrees with FHFA's decision in response to the Management Alert titled *Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce* (OIG-2018-004). FHFA declined to agree with OIG's recommendations that, to reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should: (1) cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties; and (2) direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C. OIG closed the recommendations as rejected.

## Federal Financial Management Improvement Act of 1996

Section 5(a)(13) of the Inspector General Act, as amended, requires that OIG report information concerning instances of and reasons for failures to meet any intermediate target dates from remediation plans designed to remedy findings that the Agency's financial management systems do not comply with federal financial management system requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. For the six-month reporting period ended September 30, 2018, this reporting provision did not apply to the Agency or OIG.

HERA requires the Government Accountability Office (GAO) to audit FHFA financial statements. In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2017 and 2016 Financial Statements* report, GAO did not identify any deficiencies in FHFA's internal controls over financial reporting that it considered to be a material weakness or significant deficiency. GAO also reported that its test for compliance with provisions of applicable laws, regulations, contracts, and grant agreements disclosed no reportable instances of noncompliance.

## Peer Reviews

Sections 5(a)(14), (15), and (16) of the Inspector General Act, as amended, require that OIG provide information relevant to the semiannual period on any peer reviews of OIG, unimplemented recommendations from any peer reviews of OIG, and any peer reviews conducted by OIG.

The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission Office of Inspector General (NRC-OIG) and reported on July 12, 2017.

NRC-OIG issued an Opinion Letter and a Letter of Observations detailing the results of its review. In the Opinion Letter, the NRC-OIG reported that OIG’s system of internal safeguards and management procedures for our investigative function is in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. In the Letter of Observations, NRC-OIG recognized OIG for employing five “best practices” in its investigative operations.

The most recent peer review of our audit organization was conducted by the Pension Benefit Guaranty Corporation Office of Inspector General and reported on February 28, 2017. OIG received a final System Review Report with a rating of pass, which is the highest rating that can be issued to an audit organization.

Copies of both peer review reports are on OIG’s website under [Current Peer Review Reports](#). During this semiannual reporting period, OIG has not completed any peer reviews of another Office of Inspector General.

## **Investigations into Allegations of Employee Misconduct and Whistleblower Retaliation**

In accordance with the Inspector General Act, as amended, Sections 5(a)(19), (20), (22)(B), and 5(e), OIG is required to report certain information regarding (1) investigations involving senior government employees (SGEs) or (2) government officials found to have engaged in whistleblower retaliation. In this section, we include the results of OIG administrative inquiries as appropriate.

Sections 5(a)(19) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law

(e.g., the Privacy Act of 1974)—on each investigation it conducted involving an SGE when allegations of misconduct were substantiated. During this reporting period, OIG completed an administrative inquiry of hotline complaints alleging: two FHFA SGEs falsified their time and attendance records by reporting that they worked eight-hour days when they did not; FHFA employees inaccurately reported their time and attendance by failing to take leave to attend the funeral of an FHFA employee; and an FHFA SGE authorized staff to use an FHFA vehicle to drive to that funeral.

Regarding the falsification of time and attendance records allegation, OIG concluded that one SGE’s certified time and attendance records did not accurately reflect when that individual entered and exited FHFA’s offices. OIG referred the matter to DOJ on June 28, 2018, and prosecution was declined the same day. As discussed earlier in the SAR section titled, *OIG’s Oversight of FHFA’s Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period*, OIG did not find evidence sufficient to substantiate the allegation against the second individual. See [Summary of Administrative Inquiry: The Office of Inspector General’s Review of Alleged Time and Attendance Fraud by Two Senior Agency Officials](#).

For the allegation concerning authorization of employee leave to attend a funeral and use of a government vehicle, we did not find evidence that FHFA employees inaccurately reported their time and attendance on the day of the funeral. We found that an FHFA vehicle was used outside of FHFA’s Official Use of FHFA Vehicles Policy in this instance and suggested that FHFA consider training its employees on that policy to avoid similar issues in the future. See [Management Advisory: Use of an Agency Vehicle](#), discussed earlier in the SAR section

*titled, **OIG’s Oversight of FHFA’s Programs and Operations Through Audit, Evaluation, and Compliance Activities During This Reporting Period.***

Sections 5(a)(20) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on any instance of whistleblower retaliation by an official found to have engaged in retaliation. OIG does not have any reportable information during the applicable time frame.

Sections 5(a)(22)(B) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974)—on each investigation involving an SGE that is closed and was not disclosed to the public. During this reporting period, OIG received a hotline complaint alleging that an FHFA official was reassigned for improper reasons. OIG conducted an administrative inquiry into these allegations and found no evidentiary basis on which to substantiate the claims. Therefore, the matter was closed.

## **Audits or Evaluations That Were Closed and Not Disclosed**

Sections 5(a)(22)(A) and 5(e)(1) of the Inspector General Act, as amended, require that OIG report—to the extent that public disclosure of the information is not prohibited by law (e.g., the Privacy Act of 1974, confidential supervisory information, trade secrets)—the particular circumstances of each inspection, evaluation, and audit OIG conducted that is closed and was not disclosed to the public. During this reporting period, OIG did not close any inspection, evaluation, or audit without disclosing the existence of the report to the public. OIG

issued several reports during this reporting period that contained information that is privileged, confidential, protected under the Privacy Act, or could be used to circumvent FHFA’s internal controls, and, accordingly, OIG has not publicly disclosed such contents. We have provided unredacted reports to our congressional oversight committees.

## **Interference with Independence**

Section 5(a)(21) of the Inspector General Act, as amended, requires that OIG report any attempt by FHFA to interfere with the independence of the office, including through budget constraints designed to limit OIG’s capabilities and resistance or objection to OIG’s oversight activities or restricting or significantly delaying access to information. OIG does not have any reportable information during the applicable time frame.

## Appendix B: OIG Recommendations

In accordance with the provisions of the Inspector General Act, one of the key duties of OIG is to provide to FHFA recommendations that promote economy, efficiency, and effectiveness in the Agency's operations and aid in the prevention and detection of fraud, waste, or abuse. Since OIG began operations in October 2010, we have made more than 400 recommendations. Figure 4 (see page 62) summarizes OIG's

recommendations still pending, made, or reopened during this reporting period. Figure 5 (see page 86) summarizes OIG's outstanding unimplemented recommendations. Figure 6 (see page 87) lists OIG's outstanding unimplemented open recommendations, organized by risk area. Figure 7 (see page 106) lists OIG's closed, unimplemented recommendations. Summaries for all reports are available on OIG's website or through the links provided in the accompanying tables. OIG also publishes a Compendium of Open Recommendations on its website.

**Figure 4.**

**Summary of OIG Recommendations**

No.	Recommendation	Report Name and Date	Status
AUD-2018-014-1	<p>FHFA should reinforce FHFA’s government travel card policies and procedures through periodic reminders to, and training of, FHFA travelers and approving officials, including requirements to ensure:</p> <ul style="list-style-type: none"> <li>• Travel card holders do not pay lodging taxes in states that exempt government issued travel cards from taxes;</li> <li>• Employees submit vouchers within five working days after employees complete their travel, initiate travel only after their travel authorizations are approved, and submit required receipts with travel vouchers;</li> <li>• Employees use their government-issued travel cards for all official travel expenses; and</li> <li>• Employees use travel cards only for official travel.</li> </ul>	<p><a href="#">Audit of FHFA’s Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials</a> (AUD-2018-014, September 25, 2018)</p>	<p>Recommendation agreed to by FHFA; implementation pending.</p>

No.	Recommendation	Report Name and Date	Status
<b>AUD-2018-013-1</b>	<p>FHFA should develop, document, and implement control activities to ensure that (a) only current FHFA employees are receiving transportation benefits, (b) no employee is improperly participating in both transportation benefit programs, (c) FHFA’s Transit Benefits System has a record/certification for each employee who receives a transportation benefit, and (d) SmarTrip® cards are physically controlled. Such control activities include periodic reconciliation of approved transit subsidy recipients in [the] Transit Benefits System to FHFA transit subsidy recipients listed on WMATA Monthly Activity Reports; periodic reconciliation of approved transit subsidy recipients to active parking permit recipients; and periodic inventory counts of SmarTrip® cards registered to FHFA and undistributed parking permits.</p>	<p><a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)</p>	<p>Recommendation agreed to by FHFA; implementation pending.</p>
<b>AUD-2018-013-2</b>	<p>FHFA should ensure that FHFA’s Transit Benefits System has accurate and up-to-date records of, and current certifications for, each FHFA employee who receives a transportation benefit.</p>	<p><a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)</p>	<p>Recommendation agreed to by FHFA; implementation pending.</p>

No.	Recommendation	Report Name and Date	Status
AUD-2018-013-3	Should FHFA identify, through these newly implemented controls, any individuals who improperly used transit subsidies to which they were not entitled, FHFA should determine whether to recover the amounts (taking cost/benefit into consideration).	<a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)	Recommendation agreed to by FHFA; implementation pending.
AUD-2018-011-1	FHFA should determine and pay the vendor the interest penalties owed under the Prompt Payment Act regulations for the late payments of the leased seasonal decorations received by FHFA for the 2015, 2016, and 2017 holiday seasons.	<a href="#">Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</a> (AUD-2018-011, September 6, 2018)	Recommendation not agreed to by FHFA; closed as rejected.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2018-011-2</b>	<p>FHFA should reinforce FHFA’s government purchase card policies and procedures through periodic reminders to, and training of, FHFA cardholders and approving officials, including requirements to:</p> <ul style="list-style-type: none"> <li>• Distribute micro-purchases equitably among qualified suppliers (to the extent practicable),</li> <li>• Document receipt of goods and services, and</li> <li>• Obtain prior written approval from an approving official before purchases are made.</li> </ul>	<p><a href="#"><u>Audit of FHFA’s Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</u></a> (AUD-2018-011, September 6, 2018)</p>	<p>Recommendation agreed to by FHFA; implementation pending.</p>
<b>AUD-2018-010-1</b>	<p>FHFA should ensure that examination specialists reviewing community investment examinations under DBR’s revised independent quality control process did not participate in the examination activity under review.</p>	<p><a href="#"><u>DBR’s Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA’s Standard During the 2017 Examination Cycle but DBR’s Community Investment Quality Control Reviews Were Not</u></a> (AUD-2018-010, August 17, 2018)</p>	<p>Recommendation agreed to by FHFA; implementation pending.</p>



No.	Recommendation	Report Name and Date	Status
AUD-2018-010-2	FHFA should ensure the planned operating procedures bulletins for independent quality control reviews of DBR examinations are issued and conform to Supervision Directive 2017-01, to include the requirement that personnel performing the quality control review must not have participated in the examination activity under review.	<a href="#">DBR’s Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA’s Standard During the 2017 Examination Cycle but DBR’s Community Investment Quality Control Reviews Were Not</a> (AUD-2018-010, August 17, 2018)	Recommendation agreed to by FHFA; implementation pending.
AUD-2018-008-1	FHFA should train DER examiners on the elements of the current OPB standard for MRA issuance, follow-up and closure, which include: (a) a requirement that examiners ensure that proposed corrective actions in remedial plans are sufficient to address the deficiency underlying an MRA before issuing non-objection letters; and (b) a requirement that examiners determine, after an Enterprise implements its remedial plan, that the deficiency giving rise to the MRA has been satisfactorily addressed.	<a href="#">FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</a> (AUD-2018-008, March 28, 2018)	Recommendation agreed to by FHFA; implementation pending.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2018-008-2</b>	FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor [certain matters].	<a href="#">FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</a> (AUD-2018-008, March 28, 2018)	Recommendation agreed to by FHFA; implementation pending.
<b>AUD-2018-006-1</b>	FHFA should reinforce, in examiner training, the need to prepare workpapers for targeted examinations with sufficient detail and clarity to provide a third party with a clear understanding of the examination work performed; the examination findings, conclusions, and ratings reached; and any implications of the findings, conclusions, and ratings.	<a href="#">FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work</a> (AUD-2018-006, March 13, 2018)	Recommendation agreed to by FHFA; implementation pending.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2017-010-2</b> <b>AUD-2017-011-1</b>	<p>FHFA should reinforce through training and supervision of DER personnel, the requirements established by FHFA and reinforced by DER guidance, for the risk assessment and supervisory planning process. Specifically:</p> <ul style="list-style-type: none"> <li>a. Ensure that the annual supervisory strategy identifies significant risks and supervisory concerns and explains how the planned supervisory activities to be conducted during the examination cycle address the most significant risks in the operational risk assessment. (Applies to AUD-2017-010 and AUD-2017-011)</li> <li>b. Ensure that supervisory activities planned during an examination cycle to address the most significant risks in the operational risk assessment are completed within the examination cycle. (Applies to AUD-2017-010)</li> </ul>	<p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a>  (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risk at Freddie Mac for the 2016 Examination Cycle</a>  (AUD-2017-011, September 27, 2017)</p>	<p>OIG review pending closure.</p>

No.	Recommendation	Report Name and Date	Status
<p><b>AUD-2017-010-3</b></p> <p><b>AUD-2017-011-2</b></p>	<p>FHFA should, except for rare instances where DER has an urgent need to communicate significant supervisory concerns to an Enterprise board, ensure that all supervisory conclusions and findings reported by DER in the Enterprise’s annual reports of examination (ROEs) are based on completed work that has been previously communicated, when required, in writing to the Enterprise.</p>	<p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risk at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)</p>	<p>OIG review pending closure.</p>
<p><b>AUD-2017-010-1</b></p>	<p>FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER’s ability to carry out its risk-based supervisory plans.</p>	<p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017)</p>	<p>OIG review pending closure.</p>

No.	Recommendation	Report Name and Date	Status
<b>AUD-2017-008-1</b>	FHFA should reinforce the requirements of DEROPB02 and hold DER leadership accountable to ensure that targeted examination conclusions presented in the ROE are based on work that has either (1) undergone quality control review and been communicated in writing to the Enterprise, or (2) the required quality control review has been waived by the Deputy Director of DER and documented in writing.	<a href="#">FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework</a> (AUD-2017-008, September 22, 2017)	OIG review pending closure.
<b>AUD-2017-007-1</b>	The FHFA Privacy Office should conduct a comprehensive business process analysis to identify all FHFA business processes that collect PII in electronic and hardcopy form to build an inventory of where PII is stored.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	OIG review pending closure.
<b>AUD-2017-007-2</b>	The FHFA Privacy Office should develop manual and automated processes to maintain an accurate and complete inventory of where PII is stored.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	OIG review pending closure.
<b>AUD-2017-007-3</b>	The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.	<a href="#">Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	Recommendation agreed to by FHFA; implementation pending.

No.	Recommendation	Report Name and Date	Status
AUD-2017-007-4	The FHFA Privacy Office should conduct a feasibility study of available technologies to supplement the manual and automated processes to identify and secure PII at rest and in transit.	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)	OIG review pending closure.
AUD-2016-007-2 AUD-2016-006-2	FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER’s ability to carry out its risk-based supervisory plans.	<a href="#">FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">FHFA’s Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016)	Recommendation partially agreed to by FHFA; implementation pending. FHFA provided documentation on August 17, 2017, that it assessed whether staffing levels were sufficient to carry out DER responsibilities for fulfillment of FHFA’s mission for fiscal year 2018. However, we made the same recommendation in AUD-2017-010 and reported the recommendation remained open. The status of that recommendation is OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>AUD-2012-003-1</b>	FHFA's Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances including escalation of unresolved issues reflecting potential lack of agreement.	<a href="#">FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards</a> (AUD-2012-003, March 22, 2012)	Recommendation agreed to by FHFA; implementation pending. Based on COM-2016-001, the recommendation was reopened. OIG conducted a review in September 2017 to validate the effectiveness of FHFA's remedial actions and concluded that the record provided an insufficient basis on which to close the recommendation. See COM-2018-003.
<b>EVL-2018-004-1</b>	Because Congress required the Enterprises to prepare fraud reports and FHFA has directed them to submit detailed monthly and quarterly reports to meet this statutory requirement, we recommend that FHFA re-evaluate the fraud information it requires from the Enterprises, and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises.	<a href="#">FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility</a> (EVL-2018-004, September 24, 2018)	Recommendation agreed to by FHFA; implementation pending.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2018-003-1</b>	FHFA should adopt clear guidance for examiners to follow when assessing the sufficiency of MRA remediation by the Enterprises that identifies the work steps that should be included in examiners' independent assessments of Internal Audit's work and specifies the conditions under which examiner testing is expected.	<a href="#"><u>FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</u></a> (EVL-2018-003, March 28, 2018)	Recommendation agreed to by FHFA; implementation pending.
<b>EVL-2018-002-2</b>	FHFA should revise its guidance to provide clear direction to examiners on whether, or the circumstances under which, its examiners may rely on information, analyses, or conclusions provided by an Enterprise's Internal Audit function when assessing the adequacy of MRA remediation.	<a href="#"><u>FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</u></a> (EVL-2018-002, March 28, 2018)	Recommendation agreed to by FHFA; implementation pending.



No.	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-1</b>	FHFA should provide guidance to Fannie Mae on FHFA governance expectations regarding authority to review and resolve actual, potential, and apparent conflicts of interest involving SEO positions.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)</a>	OIG review pending closure.
<b>EVL-2018-001-2</b>	FHFA should direct Fannie Mae to conduct a comprehensive internal review of its governance documents (both board and management generated) for consistency and clarity, with specific emphasis on the assignment of authority to review and resolve conflict of interest matters involving SEO positions, by seniority and rank, and the process to be used to review and resolve such conflicts.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)</a>	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-3</b>	FHFA should direct the Fannie Mae Board of Directors to review the results of the comprehensive internal review and determine whether authority to review and resolve conflict of interest matters involving specific SEO positions, by seniority and rank, should be vested in a Board committee or delegated to Fannie Mae management, and determine the process to be used to review and resolve such conflicts. Should the Board determine to delegate to management authority to review and resolve all potential, actual, or apparent conflicts of interest involving the CEO and the CEO's direct reports, counsel the Board on the process that should be put into place to require management to report its resolution of all such conflicts to a Board committee for its review.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)	OIG review pending closure.
<b>EVL-2018-001-4</b>	FHFA should, to the extent that the Fannie Mae Board of Directors determines to delegate authority to the Chief Compliance and Ethics Officer (CCO) and FM Ethics to review and resolve certain conflicts of interest involving SEOs, counsel the Board to amend the relevant governance documents and establish a reporting relationship between the NGC, FM Ethics, and the CCO.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-5</b>	FHFA should direct FHFA employees to monitor the review and resolution of SEO disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)</a>	Recommendation agreed to by FHFA; implementation pending.
<b>EVL-2018-001-6</b>	FHFA should direct the NGC to use its authority to retain, as appropriate, independent outside corporate governance experts to assist it in fulfilling its obligations under the NGC Charter.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)</a>	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2018-001-7</b>	FHFA should direct the Fannie Mae Board of Directors to assess the skills and professional experiences of current board members and, as vacancies occur, prioritize candidates with demonstrable expertise in corporate governance.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)</a>	OIG review pending closure.
<b>EVL-2018-001-8</b>	FHFA should require the NGC to fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting to ensure an effective flow of information between the NGC and other directors and to provide FHFA with sufficient information to enable it to assess whether the NGC is meeting the responsibilities and obligations set forth in its Charter.	<a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001, January 31, 2018)</a>	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2017-002-1</b>	In 2017, or as expeditiously as possible, FHFA should complete the examination activities necessary to determine whether [the Enterprise's] risk management of nonbank seller/servicers meets FHFA's supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [related matters].	<a href="#">FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</a> (EVL-2017-002, December 21, 2016)	Recommendation agreed to by FHFA; implementation pending.
<b>EVL-2016-006-1</b>	FHFA should direct the Fannie Mae Board to enhance Fannie Mae's existing cyber risk management policies to: <ul style="list-style-type: none"> <li>a. Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates;</li> <li>b. Describe information to be reported to the Board and committees;</li> <li>c. Include a cyber risk framework and cyber risk appetite.</li> </ul>	<a href="#">Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-006-3</b>	<p>FHFA should direct the Fannie Mae Board to oversee management’s efforts to leverage industry standards to:</p> <ul style="list-style-type: none"> <li>a. Protect against and detect existing threats;</li> <li>b. Remain informed on emerging risks;</li> <li>c. Enable timely response and recovery in the event of a breach; and</li> <li>d. Achieve the desired target state of cyber risk management identified in Recommendation 2 within a time period agreed upon by the Board.</li> </ul>	<p><a href="#">Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)</p>	<p>OIG review pending closure.</p>
<b>EVL-2016-005-1</b>	<p>FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each conclusion letter setting forth an MRA. (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.).</p>	<p><a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a> (EVL-2016-005, March 31, 2016)</p>	<p>Based on COM-2018-005, this recommendation was reopened. FHFA will decide by December 31, 2018, whether it will accept the recommendation.</p>

No.	Recommendation	Report Name and Date	Status
<b>EVL-2016-003-3</b>	FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the National Institute of Standards and Technology (NIST) Framework.	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)	Recommendation agreed to by FHFA; implementation pending.
<b>EVL-2016-003-4</b>	FHFA should comply with FSOC recommendations to revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST Framework in a manner that achieves consistency with other federal financial regulators.	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)	Recommendation agreed to by FHFA; implementation pending.
<b>EVL-2015-003-2</b>	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	<a href="#">Women and Minorities in FHFA's Workforce</a> (EVL-2015-003, January 13, 2015)	Recommendation agreed to by FHFA; implementation pending.
<b>EVL-2014-002-2</b>	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>EVL-2014-002-3</b>	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	<a href="#">Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)	OIG review pending closure.
<b>EVL-2013-012-2</b>	FHFA should require Fannie Mae to: <ul style="list-style-type: none"> <li>• Quantify and aggregate its overpayments to servicers regularly;</li> <li>• Implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>• Report its findings and progress to FHFA periodically.</li> </ul>	<a href="#">Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)	OIG review pending closure.
<b>EVL-2013-010-1</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)	OIG review pending closure.
<b>EVL-2013-010-3</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)	OIG review pending closure.



No.	Recommendation	Report Name and Date	Status
<b>EVL-2013-010-4</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	<a href="#">Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</a> (EVL-2013-010, August 22, 2013)	OIG review pending closure.
<b>EVL-2012-005-2</b>	<p>To strengthen the regulatory framework around the extension of unsecured credit by the FHLBanks, as a component of future rulemakings, FHFA should consider the utility of:</p> <ul style="list-style-type: none"> <li>• Establishing maximum overall exposure limits;</li> <li>• Lowering the existing individual counterparty limits; and</li> <li>• Ensuring that the unsecured exposure limits are consistent with the FHLBank System’s housing mission.</li> </ul>	<a href="#">FHFA’s Oversight of the Federal Home Loan Banks’ Unsecured Credit Risk Management Practices</a> (EVL-2012-005, June 28, 2012)	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>COM-2015-001-1</b>	FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of government-sponsored enterprise (GSE) examinations.	<a href="#">OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015)	Recommendation agreed to by FHFA; implementation pending. In September 2018, OCom reported its assessment of the status of the Housing Finance Examiner Commission Program. OCom determined that the recommendation should be maintained as open and OCom will monitor FHFA's efforts to revise the Program. See COM-2018-006.
<b>OIG-2018-004-1</b>	To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties.	<a href="#">Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)	Recommendation not agreed to by FHFA; closed as rejected.

No.	Recommendation	Report Name and Date	Status
<b>OIG-2018-004-2</b>	To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C.	<a href="#">Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)	Recommendation not agreed to by FHFA; closed as rejected.
<b>OIG-2018-001-1</b>	Prior to the FHFA Director's final decision on alternative credit score models, FHFA should promptly perform a comprehensive review of the conflict of interest implications arising from [redacted] possible involvement in Fannie Mae's assessment of the potential impact of [redacted] and possible discussions with FHFA about Fannie Mae's assessment, in light of [redacted] employment of [redacted] as [redacted]. Public release by OIG of certain information in the Management Alert is prohibited by the Privacy Act of 1974 (Pub.L. 93-579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).	<a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a> (OIG-2018-001, July 26, 2018)	OIG review pending closure.

No.	Recommendation	Report Name and Date	Status
<b>OIG-2018-001-2</b>	Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should ensure appropriate controls are in place to mitigate any potential, apparent, or actual conflict of interest.	<a href="#"><u>Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</u></a> (OIG-2018-001, July 26, 2018)	Recommendation agreed to by FHFA; implementation pending

**Figure 5.<sup>a</sup>**

**Summary of OIG Outstanding Unimplemented Recommendations**

<b>Fiscal Year</b>	<b>Number of Unimplemented Recommendations</b>	<b>Total Number of Reports with Unimplemented Recommendations</b>	<b>Dollar Value of Aggregate Potential Cost Savings</b>
2012	2 open recommendations 0 closed, rejected recommendations	2	\$–
2013	4 open recommendations 1 closed, rejected recommendation	2	\$–
2014	2 open recommendations 8 closed, rejected recommendations	7	\$5,015,505 <sup>b</sup>
2015	2 open recommendations 1 closed, rejected recommendation	3	\$–
2016	6 open recommendations 14 closed, rejected recommendations	12 <sup>c</sup>	\$–
2017	9 open recommendations 2 closed, rejected recommendations	6 <sup>d</sup>	\$–
2018	23 open recommendations 5 closed, rejected recommendations	12	\$–
TOTAL	48 open recommendations 31 closed, rejected recommendations	44	\$5,015,505

<sup>a</sup> This figure summarizes OIG’s outstanding unimplemented recommendations, comprised of open recommendations and closed, rejected recommendations, which were closed in light of the Agency’s permanent rejection or failure to follow through on corrective action.

<sup>b</sup> This potential cost savings is associated with a closed, rejected recommendation.

<sup>c</sup> Recommendations from AUD-2016-007 are repeated in AUD-2016-006 and AUD-2016-005. Each repeated recommendation is only counted once; the reports are counted separately.

<sup>d</sup> As with 2016, some audit recommendations appear in two reports (AUD-2017-010 and AUD-2017-011). Recommendations are counted only once; reports are counted separately.

**Figure 6.**

## Summary of OIG Open Recommendations

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Conservatorship: Delegated Responsibilities</b>			
<b>Development of Common Securitization Platform</b>	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#"><u>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</u></a> (EVL-2013-010, August 22, 2013)
	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#"><u>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</u></a> (EVL-2013-010, August 22, 2013)
	Because information in the report could be used to exploit vulnerabilities and circumvent countermeasures, the recommendations have not been released publicly.	Improved fraud prevention	<a href="#"><u>Reducing Risk and Preventing Fraud in the New Securitization Infrastructure</u></a> (EVL-2013-010, August 22, 2013)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<p><b>Review and Enhancement of Underwriting Standards</b></p>	<p>FHFA’s Division of Housing Mission and Goals should formally establish a policy for its review process of underwriting standards and variances, including escalation of unresolved issues reflecting potential lack of agreement.</p>	<p>Improved oversight</p>	<p><a href="#">FHFA’s Oversight of Fannie Mae’s Single-Family Underwriting Standards</a> (AUD-2012-003, March 22, 2012); <i>see also</i> <a href="#">Compliance Review of FHFA’s Implementation of Its Procedures for Overseeing the Enterprises’ Single-Family Mortgage Underwriting Standards and Variances</a> (COM-2016-001, December 17, 2015), and <a href="#">Update on FHFA’s Implementation of its Revised Procedures for Overseeing the Enterprises’ Single-Family Mortgage Underwriting Standards and Variances</a> (COM-2018-003, March 27, 2018)</p>
<p><b>Conflicts of Interest</b></p>	<p>FHFA should provide guidance to Fannie Mae on FHFA governance expectations regarding authority to review and resolve actual, potential, and apparent conflicts of interest involving SEO positions.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct Fannie Mae to conduct a comprehensive internal review of its governance documents (both board and management generated) for consistency and clarity, with specific emphasis on the assignment of authority to review and resolve conflict of interest matters involving SEO positions, by seniority and rank, and the process to be used to review and resolve such conflicts.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>
	<p>FHFA should direct the Fannie Mae Board of Directors to review the results of the comprehensive internal review and determine whether authority to review and resolve conflict of interest matters involving specific SEO positions, by seniority and rank, should be vested in a Board committee or delegated to Fannie Mae management, and determine the process to be used to review and resolve such conflicts. Should the Board determine to delegate to management authority to review and resolve all potential, actual, or apparent conflicts of interest involving the CEO and the CEO’s direct reports, counsel the Board on the process that should be put into place to require management to report its resolution of all such conflicts to a Board committee for its review.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should, to the extent that the Fannie Mae Board of Directors determines to delegate authority to the CCO and FM Ethics to review and resolve certain conflicts of interest involving SEOs, counsel the Board to amend the relevant governance documents and establish a reporting relationship between the NGC, FM Ethics, and the CCO.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>
	<p>FHFA should direct FHFA employees to monitor the review and resolution of SEO disclosures of potential, actual, or apparent conflicts of interest to ensure that revised Board committee charter(s) and management policies and procedures are being followed.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>
	<p>FHFA should direct the NGC to use its authority to retain, as appropriate, independent outside corporate governance experts to assist it in fulfilling its obligations under the NGC Charter.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct the Fannie Mae Board of Directors to assess the skills and professional experiences of current board members and, as vacancies occur, prioritize candidates with demonstrable expertise in corporate governance.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>
	<p>FHFA should require the NGC to fully document, in meeting minutes, its discussions, deliberations, and actions at each meeting to ensure an effective flow of information between the NGC and other directors and to provide FHFA with sufficient information to enable it to assess whether the NGC is meeting the responsibilities and obligations set forth in its Charter.</p>	<p>Improved oversight</p>	<p><a href="#">Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae’s Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA</a> (EVL-2018-001, January 31, 2018)</p>
	<p>Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should promptly perform a comprehensive review of the conflict of interest implications arising from [redacted] possible involvement in Fannie Mae’s assessment of the potential impact of [redacted] and possible discussions with FHFA about Fannie Mae’s assessment, in light of [redacted] employment of [redacted] as [redacted].</p>	<p>Improved oversight</p>	<p><a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a> (OIG-2018-001, July 26, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	Prior to the FHFA Director’s final decision on alternative credit score models, FHFA should ensure appropriate controls are in place to mitigate any potential, apparent, or actual conflict of interest.	Improved oversight	<a href="#">Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise</a> (OIG-2018-001, July 26, 2018)
<b>Supervision</b>			
<b>Examiner Capacity</b>	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	Improved supervision	<a href="#">Update on FHFA’s Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)
	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	Improved supervision	<a href="#">Update on FHFA’s Efforts to Strengthen its Capacity to Examine the Enterprises</a> (EVL-2014-002, December 19, 2013)
	FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER’s ability to carry out its risk-based supervisory plans.	Improved supervision	<a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER’s ability to carry out its risk-based supervisory plans.</p>	<p>Improved supervision</p>	<p><a href="#">FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016);  <a href="#">FHFA’s Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016)</p>
<p><b>Accreditation of Examiners</b></p>	<p>FHFA should determine the causes of the shortfalls in the Housing Finance Examiner Commission Program that we have identified, and implement a strategy to ensure the program fulfills its central objective of producing commissioned examiners who are qualified to lead major risk sections of government-sponsored enterprise (GSE) examinations.</p>	<p>Improved quality</p>	<p><a href="#">OIG’s Compliance Review of FHFA’s Implementation of Its Housing Finance Examiner Commission Program</a> (COM-2015-001, July 29, 2015), and  <a href="#">FHFA’s Housing Finance Examiner Commissioning Program: \$7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners</a> (COM-2018-006, September 6, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Quality Control</b>	FHFA should reinforce the requirements of DER-OPB-02 and hold DER leadership accountable to ensure that targeted examination conclusions presented in the ROE are based on work that has either (1) undergone quality control review and been communicated in writing to the Enterprise, or (2) the required quality control review has been waived by the Deputy Director of DER and documented in writing.	Improved quality	<a href="#">FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework</a> (AUD-2017-008, September 22, 2017)
	FHFA should ensure that examination specialists reviewing community investment examinations under the Division of Federal Home Loan Bank Regulation's revised independent quality control process did not participate in the examination activity under review.	Improved quality	<a href="#">DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not</a> (AUD-2018-010, August 17, 2018)
	FHFA should ensure the planned operating procedures bulletin for independent quality control reviews of Division of Federal Home Loan Bank Regulation examinations are issued and conform to Supervision Directive 2017-01, to include the requirement that personnel performing the quality control review must not have participated in the examination activity under review.	Improved quality	<a href="#">DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not</a> (AUD-2018-010, August 17, 2018)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<p><b>Risk Assessments for Supervisory Planning</b></p>	<p>FHFA should reinforce, through training and supervision of DER personnel, the requirements established by FHFA, and reinforced by DER guidance, for the risk assessment and supervisory planning process. Specifically:</p> <ul style="list-style-type: none"> <li>a. Ensure that the annual supervisory strategy identifies significant risks and supervisory concerns and explains how the planned supervisory activities to be conducted during the examination cycle address the most significant risks in the operational risk assessment. (Applies to AUD-2017-010 and AUD-2017-011)</li> <li>b. Ensure that supervisory activities planned during an examination cycle to address the most significant risks in the operational risk assessment are completed within the examination cycle. (Applies to AUD-2017-010)</li> </ul>	<p>Improved supervision</p>	<p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); and <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Targeted Examinations Completed</b>	FHFA should reinforce, in examiner training, the need to prepare workpapers for targeted examinations with sufficient detail and clarity to provide a third party with a clear understanding of the examination work performed; the examination findings, conclusions, and ratings reached; and any implications of the findings, conclusions, and ratings.	Improved supervision	<a href="#">FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work</a> (AUD-2018-006, March 13, 2018)
<b>Communication of Deficiencies to Enterprise Boards</b>	FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each conclusion letter setting forth an MRA. (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.)	Improved supervision	<a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a> (EVL-2016-005, March 31, 2016), <a href="#">Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors</a> (COM-2018-005, September 5, 2018)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should, except for rare instances where DER has an urgent need to communicate significant supervisory concerns to an Enterprise board, ensure that all supervisory conclusions and findings reported by DER in the Enterprise’s annual ROEs are based on completed work that has been previously communicated, when required, in writing to the Enterprise.</p>	<p>Improved supervision</p>	<p><a href="#">FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</a> (AUD-2017-010, September 27, 2017); <a href="#">FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle</a> (AUD-2017-011, September 27, 2017)</p>
<p><b>Assessing Remediation of Deficiencies</b></p>	<p>FHFA should train DER examiners on the elements of the current OPB standard for MRA issuance, follow-up and closure, which include: (a) a requirement that examiners ensure that proposed corrective actions in remedial plans are sufficient to address the deficiency underlying an MRA before issuing non-objection letters; and (b) a requirement that examiners determine, after an Enterprise implements its remedial plan, that the deficiency giving rise to the MRA has been satisfactorily addressed.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</a> (AUD-2018-008, March 28, 2018)</p>



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should ensure that Freddie Mac takes, or has taken, remedial action to address the deficiency underlying the MRA regarding the need to implement a process to verify and monitor [certain matters].</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA Failed to Ensure Freddie Mac’s Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions</a> (AUD-2018-008, March 28, 2018)</p>
	<p>FHFA should adopt clear guidance for examiners to follow when assessing the sufficiency of MRA remediation by the Enterprises that identifies the work steps that should be included in examiners’ independent assessments of Internal Audit’s work and specifies the conditions under which examiner testing is expected.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA’s Adoption of Clear Guidance on the Review of the Enterprises’ Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners</a> (EVL-2018-003), March 28, 2018)</p>
	<p>FHFA should revise its guidance to provide clear direction to examiners on whether, or the circumstances under which, its examiners may rely on information, analyses, or conclusions provided by an Enterprise’s Internal Audit function when assessing the adequacy of MRA remediation.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA Requires the Enterprises’ Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners’ Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<p><b>Extension of Unsecured Credit by Federal Home Loan Banks</b></p>	<p>To strengthen the regulatory framework around the extension of unsecured credit by the FHLBanks, as a component of future rulemakings, FHFA should consider the utility of:</p> <ul style="list-style-type: none"> <li>• Establishing maximum overall exposure limits;</li> <li>• Lowering the existing individual counterparty limits; and</li> <li>• Ensuring that the unsecured exposure limits are consistent with the FHLBank System’s housing mission.</li> </ul>	<p>Improved compliance</p>	<p><a href="#">FHFA’s Oversight of the Federal Home Loan Banks’ Unsecured Credit Risk Management Practices</a> (EVL-2012-005, June 28, 2012)</p>
<p><b>Use of Fraud Risk Reporting</b></p>	<p>Because Congress required the Enterprises to prepare fraud reports and FHFA has directed them to submit detailed monthly and quarterly reports to meet this statutory requirement, we recommend that FHFA re-evaluate the fraud information it requires from the Enterprises, and revise, as appropriate, its existing reporting requirements to enhance the utility of these reports with the goal of using these reports to inform its supervisory activities with respect to the risk that fraud poses to the Enterprises.</p>	<p>Improved supervision</p>	<p><a href="#">FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility</a> (EVL-2018-004, September 24, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Counterparties</b>			
<b>Collection of Funds from Servicers</b>	<p>FHFA should require Fannie Mae to:</p> <ul style="list-style-type: none"> <li>Quantify and aggregate its overpayments to servicers regularly;</li> <li>Implement a plan to reduce these overpayments by (1) identifying their root causes, (2) creating reduction targets, and (3) holding managers accountable; and</li> <li>Report its findings and progress to FHFA periodically.</li> </ul>	Improved financial management	<a href="#">Evaluation of Fannie Mae’s Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)
<b>Compliance with Advisory Bulletins</b>	In 2017, or as expeditiously as possible, FHFA should complete the examination activities necessary to determine whether [the Enterprise’s] risk management of nonbank seller/servicers meets FHFA’s supervisory expectations as set forth in its supervisory guidance. These activities should include an independent assessment of the [related matters].	Improved risk management	<a href="#">FHFA’s Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers</a> (EVL-2017-002, December 21, 2016)
<b>Information Technology</b>			
<b>Information Technology Risk Examinations</b>	FHFA should comply with FSOC recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the NIST Framework.	Improved risk management	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should comply with FSOC recommendations to revise existing regulatory guidance to reflect and incorporate appropriate elements of the NIST framework in a manner that achieves consistency with other federal financial regulators.	Improved risk management	<a href="#">FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework</a> (EVL-2016-003, March 28, 2016)
<b>Cyber Risk Oversight</b>	<p>FHFA should direct the Fannie Mae Board to enhance Fannie Mae’s existing cyber risk management policies to:</p> <ul style="list-style-type: none"> <li>a. Require a baseline Enterprise-wide cyber risk assessment with subsequent periodic updates;</li> <li>b. Describe information to be reported to the Board and committees;</li> <li>c. Include a cyber risk framework and cyber risk appetite.</li> </ul>	Improved risk management	<a href="#">Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct the Fannie Mae Board to oversee management’s efforts to leverage industry standards to:</p> <ul style="list-style-type: none"> <li>a. Protect against and detect existing threats;</li> <li>b. Remain informed on emerging risks;</li> <li>c. Enable timely response and recovery in the event of a breach; and</li> <li>d. Achieve the desired target state of cyber risk management identified in Recommendation 2 within a time period agreed upon by the Board.</li> </ul>	Improved risk management	<a href="#">Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA’s Closer Attention to Governance Issues</a> (EVL-2016-006, March 31, 2016)
<b>Privacy Information and Data Protection</b>	<p>The FHFA Privacy Office should conduct a comprehensive business process analysis to identify all FHFA business processes that collect PII in electronic and hardcopy form to build an inventory of where PII is stored.</p>	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
	<p>The FHFA Privacy Office should develop manual and automated processes to maintain an accurate and complete inventory of where PII is stored.</p>	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
	<p>The FHFA Privacy Office should establish, implement, and train end users to apply naming conventions to files and folders containing PII.</p>	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	The FHFA Privacy Office should conduct a feasibility study of available technologies to supplement the manual and automated processes to identify and secure PII at rest and in transit.	Improved protection of privacy information	<a href="#">Performance Audit of the Federal Housing Finance Agency’s (FHFA) Privacy Program</a> (AUD-2017-007, August 30, 2017)
<b>Agency Operations</b>			
<b>Oversight of FHFA Workforce Matters</b>	FHFA should regularly analyze Agency workforce data and assess trends in hiring, awards, and promotions.	Improved opportunities and oversight	<a href="#">Women and Minorities in FHFA’s Workforce</a> (EVL-2015-003, January 13, 2015)
<b>Management of Agency Resources</b>	<p>FHFA should reinforce FHFA’s government purchase card policies and procedures through periodic reminders to, and training of, FHFA cardholders and approving officials, including requirements to:</p> <ul style="list-style-type: none"> <li>• Distribute micro-purchases equitably among qualified suppliers (to the extent practicable),</li> <li>• Document receipt of goods and services, and</li> <li>• Obtain prior written approval from an approving official before purchases are made.</li> </ul>	Improved management of resources	<a href="#">Audit of FHFA’s Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</a> (AUD-2018-011, September 6, 2018)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should develop, document, and implement control activities to ensure that (a) only current FHFA employees are receiving transportation benefits, (b) no employee is improperly participating in both transportation benefit programs, (c) FHFA's Transit Benefits System has a record/certification for each employee who receives a transportation benefit, and (d) SmarTrip® cards are physically controlled. Such control activities include periodic reconciliation of approved transit subsidy recipients in [the] Transit Benefits System to FHFA transit subsidy recipients listed on WMATA Monthly Activity Reports; periodic reconciliation of approved transit subsidy recipients to active parking permit recipients; and periodic inventory counts of SmarTrip® cards registered to FHFA and undistributed parking permits.</p>	<p>Improved management of resources</p>	<p><a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)</p>
	<p>FHFA should ensure that FHFA's Transit Benefits System has accurate and up-to-date records of, and current certifications for, each FHFA employee who receives a transportation benefit.</p>	<p>Improved management of resources</p>	<p><a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>Should FHFA identify, through these newly implemented controls, any individuals who improperly used transit subsidies to which they were not entitled, FHFA should determine whether to recover the amounts (taking cost/benefit into consideration).</p>	<p>Improved management of resources</p>	<p><a href="#">FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs</a> (AUD-2018-013, September 25, 2018)</p>
	<p>FHFA should reinforce FHFA’s government travel card policies and procedures through periodic reminders to, and training of, FHFA travelers and approving officials, including requirements to ensure:</p> <ul style="list-style-type: none"> <li>• Travel card holders do not pay lodging taxes in states that exempt government issued travel cards from taxes;</li> <li>• Employees submit vouchers within five working days after employees complete their travel, initiate travel only after their travel authorizations are approved, and submit required receipts with travel vouchers;</li> <li>• Employees use their government-issued travel cards for all official travel expenses; and</li> <li>• Employees use travel cards only for official travel.</li> </ul>	<p>Improved management of resources</p>	<p><a href="#">Audit of FHFA’s Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials</a> (AUD-2018-014, September 25, 2018)</p>



Figure 7.

## Summary of Closed, Unimplemented Recommendations

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Property Inspection Quality Controls</b>	FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.	Improved quality	<a href="#">FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections</a> (AUD-2014-012, March 25, 2014)
<b>Improperly Reimbursed Property Inspection Claims</b>	FHFA should direct Fannie Mae to obtain a refund from servicers for improperly reimbursed property inspection claims, resulting in estimated funds put to better use of \$5,015,505.	Improved accuracy	<a href="#">FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections</a> (AUD-2014-005, January 15, 2014)
<b>Seller/Servicer Resolution of Aged Repurchase Demands</b>	FHFA should promptly quantify the potential benefit of implementing a repurchase late fee program at Fannie Mae, and then determine whether the potential cost of from \$500,000 to \$5.4 million still outweighs the potential benefit.	Improved oversight	<a href="#">FHFA Oversight of Enterprise Handling of Aged Repurchase Demands</a> (AUD-2014-009, February 12, 2014)
<b>Oversight of Enterprise Implementation of Representation and Warranty Framework</b>	FHFA should perform a comprehensive analysis to assess whether financial risks associated with the new representation and warranty framework, including with regard to sunset periods, are appropriately balanced between the Enterprises and sellers. This analysis should be based on consistent transactional data across both Enterprises, identify potential costs and benefits to the Enterprises, and document consideration of the Agency's objectives.	Improved framework management	<a href="#">FHFA's Representation and Warranty Framework</a> (AUD-2014-016, September 17, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Seller/Servicer Compliance with Guidance</b>	FHFA should direct Fannie Mae and Freddie Mac to assess the cost/benefit of a risk-based approach to requiring their sellers and servicers to provide independent, third-party attestation reports on compliance with Enterprise origination and servicing guidance.	Improved compliance	<a href="#">FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines</a> (AUD-2014-018, September 26, 2014)
<b>Collection of Funds from Servicers</b>	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	Improved transparency	<a href="#">Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses</a> (EVL-2013-012, September 18, 2013)
<b>Examination Recordkeeping Practices</b>	DER should adopt a comprehensive examination workpaper index and standardize electronic workpaper folder structures and naming conventions between the two Core Teams. In addition, FHFA and DER should upgrade recordkeeping practices as necessary to enhance the identification and retrieval of critical workpapers.	Improved efficiency	<a href="#">Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities</a> (EVL-2015-001, October 6, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Oversight of Enterprise Executive Compensation</b>	<p>FHFA should develop a strategy to enhance the Executive Compensation Branch’s capacity to review the reasonableness and justification of the Enterprises’ annual proposals to compensate their executives based on Corporate Scorecard performance. To this end, FHFA should ensure that: the Enterprises submit proposals containing information sufficient to facilitate a comprehensive review by the Executive Compensation Branch; the Executive Compensation Branch tests and verifies the information in the Enterprises’ proposals, perhaps on a randomized basis; and the Executive Compensation Branch follows up with the Enterprises to resolve any proposals that do not appear to be reasonable and justified.</p>	Improved oversight	<a href="#">Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002, March 17, 2016)</a>
	<p>FHFA should develop a policy under which it is required to notify OIG within 10 days of its decision not to fully implement, substantially alter, or abandon a corrective action that served as the basis for OIG’s decision to close a recommendation.</p>	Improved oversight	<a href="#">Compliance Review of FHFA’s Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002, March 17, 2016)</a>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Oversight of Servicing Alignment Initiative</b>	FHFA’s Division of Housing Mission and Goals Deputy Director should establish an ongoing process to evaluate servicers’ Servicing Alignment Initiative compliance and the effectiveness of the Enterprises’ remediation efforts.	Improved servicing compliance and minimized losses	<a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)
	FHFA’s Division of Housing Mission and Goals Deputy Director should direct the Enterprises to provide routinely their internal reports and reviews for the Division of Housing Mission and Goals’ assessment.	Improved servicing compliance and minimized losses	<a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)
	FHFA’s Division of Housing Mission and Goals Deputy Director should regularly review Servicing Alignment Initiative-related guidelines for enhancements or revisions, as necessary, based on servicers’ actual versus expected performance.	Improved servicing compliance and minimized losses	<a href="#">FHFA’s Oversight of the Servicing Alignment Initiative</a> (EVL-2014-003, February 12, 2014)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Targeted Examinations Completed</b>	FHFA should revise existing guidance to require examiners to prepare complete documentation of supervisory activities and maintain such documentation in the official system of record, and train DER examiners on this guidance.	Improved supervision	<a href="#">FHFA’s Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</a> (AUD-2016-007, September 30, 2016); <a href="#">FHFA’s Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued</a> (AUD-2016-006, September 30, 2016); <a href="#">FHFA’s Supervisory Planning Process for the Enterprises: Roughly Half of FHFA’s 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed</a> (AUD-2016-005, September 30, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<p><b>Oversight of Enterprise Remediation of Deficiencies</b></p>	<p>FHFA should review FHFA’s existing requirements, guidance, and processes regarding MRAs against the requirements, guidance, and processes adopted by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and other federal financial regulators including, but not limited to, content of an MRA; standards for proposed remediation plans; approval authority for proposed remediation plans; real-time assessments at regular intervals of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; final assessment of the effectiveness and timeliness of an Enterprise’s MRA remediation efforts; and required documentation for examiner oversight of MRA remediation.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)</p>
	<p>Based on the results of the review in recommendation 1, FHFA should assess whether any of the existing requirements, guidance, and processes adopted by FHFA should be enhanced, and make such enhancements.</p>	<p>Improved remediation of deficiencies</p>	<p><a href="#">FHFA’s Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise’s Remediation of Serious Deficiencies</a> (EVL-2016-004, March 29, 2016)</p>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Communication of Deficiencies to Enterprise Boards</b>	FHFA should revise its supervision guidance to require DER to provide the Chair of the Audit Committee of an Enterprise Board with each plan submitted by Enterprise management to remediate an MRA with associated timetables and the response by DER.	Improved Board oversight	<a href="#">FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate</a> (EVL-2016-005, March 31, 2016)
	<p>FHFA should direct DER to develop detailed guidance and promulgate that guidance to each Enterprise’s board of directors that explains:</p> <ul style="list-style-type: none"> <li>• The purpose for DER’s annual presentation to each Enterprise board of directors on the ROE results, conclusions, and supervisory concerns and the opportunity for directors to ask questions and discuss ROE examination conclusions and supervisory concerns at that presentation; and</li> <li>• The requirement that each Enterprise board of directors submit a written response to the annual ROE to DER and the expected level of detail regarding ongoing and contemplated remediation in that written response.</li> </ul>	Improved Board oversight	<a href="#">FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports</a> (EVL-2016-009, July 14, 2016)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should direct the Enterprises' boards to amend their charters to require review by each director of each annual ROE and review and approval of the written response to DER in response to each annual ROE.	Improved Board oversight	<a href="#">FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports</a> (EVL-2016-009, July 14, 2016)
<b>Assessing Remediation of Deficiencies</b>	FHFA should ensure that the underlying remediation documents, including the Procedures Document, are readily available by direct link or other means, through DER's MRA tracking system(s).	Improved remediation of deficiencies	<a href="#">FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)
	FHFA should require DER to track interim milestones and to independently assess and document the timeliness and adequacy of Enterprise remediation of MRAs on a regular basis.	Improved remediation of deficiencies	<a href="#">FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)



Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	FHFA should require the Enterprises to provide, in their remediation plans, the target date in which their internal audit departments expect to validate management's remediation of MRAs, and require examiners to enter that date into a dedicated field in the MRA tracking system.	Improved remediation of deficiencies	<a href="#">FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises</a> (EVL-2016-007, July 14, 2016)
	FHFA should periodically conclude, based upon sufficient examination work, on the overall effectiveness of the Internal Audit functions at Fannie Mae and Freddie Mac.	Improved remediation of deficiencies	<a href="#">FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)
	FHFA should direct that examiners can use Internal Audit work to assess the adequacy of MRA remediation only if FHFA has concluded that the Internal Audit function is effective overall.	Improved remediation of deficiencies	<a href="#">FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work</a> (EVL-2018-002, March 28, 2018)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Identification of Deficiencies and Their Root Causes</b>	FHFA should direct DER to revise its guidance to require ROEs to focus the boards' attention of the most critical and time-sensitive supervisory concerns through (1) the prioritization of examination findings and conclusions and (2) identification of deficiencies and MRAs in the ROE and discussion of their root causes.	Improved Board oversight	<a href="#"><u>FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns (EVL-2016-008, July 14, 2016)</u></a>
<b>Oversight of Fannie Mae Headquarters Consolidation and Relocation</b>	FHFA should ensure that it has adequate internal staff, outside contractors, or both, who have the professional expertise and experience in commercial construction to oversee the buildout plans and associated budget(s), as Fannie Mae continues to revise and refine them.	Improved oversight	<a href="#"><u>Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project (COM-2016-004, June 16, 2016)</u></a>
	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to DOC for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.	Improved oversight	<a href="#"><u>Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project (COM-2016-004, June 16, 2016)</u></a>

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
<b>Oversight of Fannie Mae Northern Virginia Consolidation and Relocation</b>	To reduce the waste from Option C (the option Fannie Mae selected for its future operations in Northern Virginia), FHFA, consistent with its duties as conservator, should cause Fannie Mae to calculate the net present value for a Status Quo Option, and calculate the costs associated with terminating the lease with Boston Properties.	Reduced waste	<a href="#">Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)
	To reduce the waste from Option C, FHFA, consistent with its duties as conservator, should direct Fannie Mae to terminate the lease, cancel the sale of the three owned buildings, and implement the Status Quo Option, should the net present value for a Status Quo Option and the termination costs be lower than the adjusted net present value for Option C.	Reduced waste	<a href="#">Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce</a> (OIG-2018-004, September 6, 2018)
<b>Conflicts of Interest</b>	Take appropriate action to address conflicts of interest issue involving an entity within FHFA’s oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).	Improved oversight	<a href="#">Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise</a> (OIG-2017-004, March 23, 2017)

Specific Risk to be Mitigated	Recommendation	Expected Impact	Report Name and Date
	<p>Take appropriate action to address conflicts of interest issue involving an entity within FHFA’s oversight authority. Public release by OIG of certain information in the Management Alert and accompanying expert report is prohibited by the Privacy Act of 1974 (Pub.L. 93–579, 88 Stat. 1896, enacted December 31, 1974, 5 U.S.C. § 552a).</p>	<p>Improved oversight</p>	<p><a href="#"><u>Administrative Investigation into Anonymous Hotline Complaints Concerning Timeliness and Completeness of Disclosures Regarding a Potential Conflict of Interest by a Senior Executive Officer of an Enterprise</u></a> (OIG-2017-004, March 23, 2017)</p>
<p><b>Management of Agency Resources</b></p>	<p>FHFA should determine and pay the vendor the interest penalties owed under the Prompt Payment Act regulations for the late payments of the leased seasonal decorations received by FHFA for the 2015, 2016, and 2017 holiday seasons.</p>	<p>Improved compliance</p>	<p><a href="#"><u>Audit of FHFA’s Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements</u></a> (AUD-2018-011, September 6, 2018)</p>

# Appendix C: OI Publicly Reportable Investigative Outcomes Involving Condo Conversion and Builder Bailout Schemes

In condo conversion and builder bailout schemes, the sellers or developers wrongfully conceal from prospective lenders the incentives they have offered to investors and the true value of the properties. The lenders, acting on this misinformation, make loans that are far riskier than they have been led to believe. Such loans often default and go into foreclosure, causing the lenders to suffer large losses. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Five Sentenced and Two Charged in Condo Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Abdelghani Mellouki	Straw Buyer	Sentenced to 36 months of supervised release and ordered to pay \$27,000 in forfeiture. Later ordered to pay \$483,975 in restitution, joint and several.	September 5, 2018 & June 19, 2018
Daniel Cardenas	Loan Officer	Sentenced to 18 months in prison, 60 months of supervised release, and ordered to pay \$710,986 in restitution, joint and several.	August 9, 2018
Alejandro Tobon	Branch Manager	Sentenced to 37 months in prison, 5 years of supervised release, and ordered to pay \$5,803,022 in restitution, joint and several.	May 17, 2018
Carlos Escarria	Real Estate Sales Associate/Loan Officer	Sentenced to 18 months in prison, 5 years of supervised release, and ordered to pay \$1,284,833 in restitution, joint and several.	May 17, 2018
Joaquin Cadavid	Straw Buyer	Sentenced to 5 years of supervised release and ordered to pay \$755,325 in restitution, joint and several.	April 6, 2018
Mordechai Boaziz	Licensed Real Estate Agent/ Developer	Charged by superseding indictment with conspiracy and false statements to a financial institution.	April 5, 2018
Jonathan Marmol	Licensed Mortgage Broker	Charged by superseding indictment with conspiracy and false statements to a financial institution.	April 5, 2018

### Sentencing and Guilty Plea of Real Estate Developers in Builder Bailout Fraud Scheme, Illinois

Defendant	Role	Most Recent Action	Date
Vince Manglardi	Real Estate Developer	Pled guilty to wire fraud affecting a financial institution.	September 4, 2018
Theodore Wojtas, Jr.	Real Estate Developer	Sentenced to 66 months in prison, 3 years of supervised release, and ordered to pay \$14,745,882 in restitution, joint and several.	July 24, 2018

### Sentencings of Acting Manager/Recruiter, Title Company President and Straw Buyer and Guilty Plea of Real Estate Broker/Recruiter in Multi-Defendant Condominium Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Miguel Soto	Acting Manager/Recruiter	Sentenced to 42 months in prison, 5 years of supervised release.	July 20, 2018
Barbara Camayd	Title Company President	Sentenced to 18 months in prison, 5 years of supervised release, and ordered to pay \$1,860,170 in restitution, joint and several.	July 6, 2018
Emily Echavarria	Real Estate Broker/Recruiter	Pled guilty to conspiracy to commit bank fraud and wire fraud affecting a financial institution.	June 6, 2018
Yipsy Rabelo Clavelo	Straw Buyer	Sentenced to 7 months in prison and 5 years of supervised release.	April 9, 2018

### Three Sentenced in \$21 Million Builder Bailout Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Momoud Abaji	Participant	Sentenced to 108 months in prison and ordered to pay \$10,047,272 in restitution, joint and several.	July 16, 2018
Maher Obagi	Participant	Sentenced to 78 months in prison, 4 years of supervised release, and ordered to pay \$10,042,638 in restitution, joint and several.	June 5, 2018
Mohamed Salah	Participant	Sentenced to 57 months in prison, 4 years of supervised release, and ordered to pay \$7,487,163 in restitution, joint and several.	June 5, 2018

**Indictment of Realtor and Business Partner in Condominium Fraud Scheme, Florida**

Defendant	Role	Most Recent Action	Date
Geo Geovanni	Realtor/Investor	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	June 27, 2018
Elizabeth Longerbone	Business Partner	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	June 27, 2018

**Attorney/Escrow Agent found Guilty at Trial, Florida**

Defendant	Role	Most Recent Action	Date
Eric Granitur	Attorney/Escrow Agent	Convicted at trial on charges of conspiracy and making false statements to a federally insured institution.	June 15, 2018

**Real Estate Investor/Recruiter Charged in Builder-Bailout Scheme, Florida**

Defendant	Role	Most Recent Action	Date
Henry Frierson	Real Estate Investor/Recruiter	Charged by indictment with bank fraud and conspiracy to commit mail fraud and bank fraud.	April 24, 2018

**Restitution Ordered in Condominium Fraud Scheme, Florida**

Defendant	Role	Most Recent Action	Date
Angel Garcia-Oliver	Former Attorney and Principal of Garcia-Oliver & Mainieri, P.A.	Ordered to pay \$2,500,000 in restitution.	April 23, 2018

## Appendix D: OI Publicly Reportable Investigative Outcomes Involving Loan Origination Schemes

Loan or mortgage origination schemes are the most common type of mortgage fraud. They typically involve falsifying borrowers' income, assets, employment histories, and credit profiles to make them more attractive to lenders. Perpetrators often employ bogus Social Security numbers and fake or altered documents, such as W-2s and bank statements, to cause lenders to make loans they would not otherwise make. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Three Indicted in Origination Fraud Scheme, New Jersey			
Defendant	Role	Most Recent Action	Date
Fausto Simoes	Settlement Agent	Charged by indictment with conspiracy, bank fraud, and false statements in a credit application.	September 25, 2018
Victor Santos	Investor/ Developer	Charged by indictment with conspiracy, bank fraud, and false statements in a credit application.	September 25, 2018
Arsenio Santos	Builder	Charged by indictment with conspiracy, bank fraud, and false statements in a credit application.	September 25, 2018

Title Agent Sentenced, New York			
Defendant	Role	Most Recent Action	Date
Michelle Baker	Title Agent	Sentenced to 6 months in prison, 6 months of home confinement, 2 years of supervised release, and ordered to pay \$300,000 in forfeiture.	September 13, 2018

One Charged in Straw Buyer Scheme, Michigan			
Defendant	Role	Most Recent Action	Date
Aoun Aoun	Participant	Charged by state complaint with forgery, uttering and publishing, and false pretenses.	September 7, 2018



### Sentencing to Nearly Five Years in Federal Prison in \$11 Million Bank Fraud Case, California

Defendant	Role	Most Recent Action	Date
Mohsen Hass	Participant	Sentenced to 57 months in prison, 3 years of supervised release, and ordered to pay \$5,737,585 in restitution.	August 27, 2018

### Sentencings in Loan Origination Fraud Scheme, Texas

Defendant	Role	Most Recent Action	Date
Chukwuma Osuagwu	Buyer/Seller	Sentenced to 72 months in prison, 5 years of supervised release, and ordered to pay \$722,934 in restitution.	August 21, 2018
James Mitchell	Buyer	Sentenced to 30 months of probation and ordered to pay \$87,965 in restitution.	April 11, 2018

### Attorney Sentenced in Straw Buyer Scheme, Illinois

Defendant	Role	Most Recent Action	Date
Robert Lattas	Attorney	Sentenced to 84 months in prison, 2 years of supervised release, and ordered to pay \$2,711,208 in restitution.	August 13, 2018

### Superseding Indictment Filed in Appraisal Fraud Scheme, Ohio

Defendant	Role	Most Recent Action	Date
Cynthia Faulkner	Business Owner	Charged by superseding indictment with false statements, aiding and assisting in the preparation of a fraudulent tax return, and bank fraud.	May 22, 2018

### Former Loan Officer Sentenced for Role in \$6 Million Mortgage Fraud Scheme, New York

Defendant	Role	Most Recent Action	Date
Joseph Divalli	Loan Officer	Sentenced to 18 months in prison, 3 years of supervised release, and ordered to pay \$2,322,044 in restitution, joint and several.	May 22, 2018

### Sentencing of Real Estate Developer, New York

Defendant	Role	Most Recent Action	Date
Schelton Assoumou	Real Estate Developer	Sentenced to 2 years of supervised release and ordered to pay a fine of \$5,000.	May 16, 2018

### Indictment of Business Operator in Loan Origination Scheme, Illinois

Defendant	Role	Most Recent Action	Date
Irma Holloway	Business Operator	Charged by indictment with bank fraud and false statements.	May 3, 2018

# Appendix E: OI Publicly Reportable Investigative Outcomes Involving Short Sale Schemes

Short sales occur when a lender allows a borrower who is “underwater” on his/her loan—that is, the borrower owes more than the property is worth—to sell his/her property for less than the debt owed. Short sale fraud usually involves a borrower who intentionally misrepresents or fails to disclose material facts to induce a lender to agree to a short sale. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

## Charge and Guilty Plea of Real Estate Attorney in Short Sale Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Christopher Goodson	Real Estate Attorney	Charged by information and pled guilty to bank fraud.	September 28, 2018

## Four Real Estate Professionals Plead Guilty in Short Sale Fraud Scheme, Arizona

Defendant	Role	Most Recent Action	Date
Andrew Jemmett	Real Estate Employee	Pled guilty to false statement in a transaction insured by HUD.	August 27, 2018
Jason Poyner	Participant	Pled guilty to misprision of felony.	August 20, 2018
David Dziedzic	Real Estate Broker	Pled guilty to willful communication of unregistered securities and failure to file form 8300.	August 6, 2018
Heather Dziedzic	Real Estate Broker	Pled guilty to willful communication of unregistered securities and unfair competition.	August 6, 2018

## Attorney Sentenced After Being Found Guilty at Trial for Short Sale Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Robert Farrace	Attorney	Sentenced to 24 months in prison, 24 months of supervised release, and ordered to pay \$128,245 in forfeiture.	June 18, 2018

### Guilty Plea of Real Estate Salesperson in Buy-and-Bail Scheme, Michigan

Defendant	Role	Most Recent Action	Date
Dan Trubak	Real Estate Salesperson	Pled guilty to misprision of a felony.	May 22, 2018

### Two Business Owners Indicted in Short Sale Fraud Scheme, North Carolina

Defendant	Role	Most Recent Action	Date
Starr Ilzhoefer	Business Owner	Charged by indictment with conspiracy and false statements.	May 15, 2018
Aaron Guido	Business Owner	Charged by indictment with conspiracy and false statements.	May 15, 2018

### Sentencing of Family Members in Short Sale Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Louis Virzi	Participant	Sentenced to 1 year of supervised release and ordered to pay \$34,334 in restitution, joint and several.	May 11, 2018
Christopher Campbell	Participant	Sentenced to 1 year of supervised release and ordered to pay \$34,334 in restitution, joint and several.	May 11, 2018

# Appendix F: OI Publicly Reportable Investigative Outcomes Involving Loan Modification and Property Disposition Schemes

Loan modification and property disposition schemes prey on homeowners. Businesses typically advertise that they can secure loan modifications if the homeowners pay significant upfront fees or take other action that enriches the defendant. Typically, these businesses take little or no action, leaving homeowners in a worse position. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Loan Modification Consulting Company Operator Sentenced to Prison for Defrauding Multiple Residential Mortgage Holders, New Jersey			
Defendant	Role	Most Recent Action	Date
Jeffrey Halpern	Loan Modification Consulting Company Owner	Sentenced to 57 months in prison, 3 years of supervised release, and ordered to pay \$411,005 in restitution.	August 27, 2018

Foreclosure Rescue Scheme Operator Pleads Guilty and is Sentenced, Maryland			
Defendant	Role	Most Recent Action	Date
Paul Randall	Participant	Pled guilty to failure to comply with terms while acting as a foreclosure specialist and practicing law with admission to the bar and sentenced to 3 years in prison, 5 years of supervised release, and ordered to pay \$12,000 in restitution.	August 21, 2018

Three Sentenced in \$20 Million Mortgage Fraud Scheme, California			
Defendant	Role	Most Recent Action	Date
Dorothy Matsuba	Participant	Sentenced to 240 months in prison, 3 years of supervised release.	July 16, 2018
Jamie Matsuba	Participant	Sentenced to 135 months in prison, 3 years of supervised release.	July 16, 2018
Thomas Matsuba	Participant	Sentenced to 168 months in prison, 3 years of supervised release.	July 16, 2018

### Sentencing of Former Director/Vice President of Non-Profit, Texas

Defendant	Role	Most Recent Action	Date
Javier Gonzalez	Director/Vice President	Sentenced to 60 months in prison, 2 years of supervised release, and ordered to pay \$611,740 in restitution and \$54,257 in forfeiture.	July 16, 2018

### Sentencing of Nationwide Loan Modification Scheme Operator and One Charged, California

Defendant	Role	Most Recent Action	Date
Assad Suleiman	Participant	Sentenced to 8 years in prison and ordered to pay \$1,568,717 in restitution.	July 13, 2018
Rosa Barraza	Participant	Charged by superseding information with conspiracy, grand theft, money laundering, and unlawful loan modification advance fees.	April 4, 2018

### Sentencing of Loan Modification Fraud Scheme Promoter, California

Defendant	Role	Most Recent Action	Date
Jacob Orona	Promoter	Sentenced to 7 years and 4 months in prison and ordered to pay a \$10,000 fine and \$131,286 in restitution, joint and several.	July 10, 2018

### Guilty Pleas in Loan Modification Fraud Scheme, New York

Defendant	Role	Most Recent Action	Date
Doreen Scarciofolo	Participant	Pled guilty to residential mortgage fraud.	July 2, 2018
Anthony Calascione	Participant	Pled guilty to residential mortgage fraud and criminal tax fraud.	April 25, 2018

### Three Convicted at Trial on Charges Related to Foreclosure Prevention Fraud Scheme, Maryland

Defendant	Role	Most Recent Action	Date
Michelle Jordan	CEO/Director of Company	Found guilty at trial on charges of conspiracy to commit wire fraud and wire fraud.	June 20, 2018
Michael Welsh	President/Vice President and Director of Company	Found guilty at trial on charges of conspiracy to commit wire fraud and wire fraud.	June 20, 2018
Carrol Jackson	Owner/Manager of Company	Found guilty at trial on charges of conspiracy to commit wire fraud and wire fraud.	June 20, 2018

### Indictment of Business Owner in Multi-State Loan Modification Scheme with Over 550 Victims, Kansas

Defendant	Role	Most Recent Action	Date
Sarah Cordry	Business Owner	Charged by indictment with conspiracy to commit mail and wire fraud, mail fraud, and wire fraud.	May 9, 2018

### Indictment of Licensed Realtor and Loan Modification Scheme Operator, Virginia

Defendant	Role	Most Recent Action	Date
Rodrigo Pardo	Licensed Realtor	Charged by indictment with conspiracy, wire fraud, and bank fraud.	April 26, 2018
Lorena Medina	Loan Modification Scheme Operator	Charged by indictment with conspiracy, wire fraud, and bank fraud.	April 26, 2018

### Guilty Plea in Loan Modification Fraud Scheme, New York

Defendant	Role	Most Recent Action	Date
Anthony Calascione	Participant	Pled guilty to residential mortgage fraud and criminal tax fraud.	April 25, 2018

## Appendix G: OI Publicly Reportable Investigative Outcomes Involving Property Management and REO Schemes

Numerous foreclosures left the Enterprises with an inventory of REO properties. The REO inventory has sparked a number of different schemes to either defraud the Enterprises, which use contractors to secure, maintain and repair, price, and ultimately sell their properties, or defraud individuals seeking to purchase REO properties from the Enterprises. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

### 46 Month Prison Sentence in Fraudulent Deed/REO Scheme, Nevada

Defendant	Role	Most Recent Action	Date
Geri McKinnon	Participant	Sentenced to 46 months in prison.	September 24, 2018

### Guilty Plea of Real Estate Broker Charged, Florida

Defendant	Role	Most Recent Action	Date
Hollie Dustin	Real Estate Broker	Pled guilty to wire fraud.	June 19, 2018

### Sentencing of Property Manager, Florida

Defendant	Role	Most Recent Action	Date
Michael Rubino	Property Manager	Sentenced to 13 months in prison, 3 years of supervised release, and ordered to pay \$90,070 in restitution.	May 31, 2018

### Guilty Trial Verdict in Rental Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Robert Tribble, Jr.	Participant	Found guilty at trial on charges of criminal use of personal identification.	May 16, 2018



## Appendix H: OI Publicly Reportable Investigative Outcomes Involving Adverse Possession and Distressed Property Schemes

Adverse possession schemes use illegal adverse possession (also known as “home squatting”) or fraudulent documentation to control distressed homes, foreclosed homes, and REO properties. In distressed property schemes, perpetrators falsely purport to assist struggling homeowners seeking to delay or avoid foreclosure. They use fraudulent tactics, such as filing false bankruptcy petitions, while collecting significant fees from the homeowners. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Real Estate Broker Plead Guilty in Bankruptcy Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Michaelangelo Hijada	Real Estate Broker	Pled guilty to bankruptcy fraud.	September 25, 2018

Real Estate Agent Pleads Guilty to Defrauding Fannie Mae in Bankruptcy Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
David Morgan	Real Estate Agent	Pled guilty to bankruptcy fraud.	September 11, 2018

Two Plead Guilty in \$2 Million Mortgage Fraud Scheme, California			
Defendant	Role	Most Recent Action	Date
Andrew Valles, III	Participant	Pled guilty to theft, filing false or forged documents in a public office, conspiracy, and identity theft.	August 27, 2018
Arnold Millman	Participant	Pled guilty to theft, filing false or forged documents in a public office, conspiracy, and identity theft.	August 27, 2018

### **Sovereign Citizens Sentenced, Michigan**

<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Tanisha Farr	Participant	Sentenced to 2 years of probation.	August 17, 2018
Valerion Farr	Participant	Sentenced to 2 years of probation.	August 17, 2018

### **Guilty Plea in Multi-State Deed Fraud Scheme, Texas**

<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Arlando Jacobs	Participant	Pled guilty to conspiracy to commit wire fraud.	May 14, 2018

### **Indictment of Business Owner/Fraudulent Bankruptcy Petition Filer, Florida**

<b>Defendant</b>	<b>Role</b>	<b>Most Recent Action</b>	<b>Date</b>
Christopher Coburn	Business Owner	Charged by indictment with bankruptcy fraud.	May 9, 2018

# Appendix I: OI Publicly Reportable Investigative Outcomes Involving Multifamily Schemes

Investigations in this category can involve a variety of fraud schemes that relate to loans purchased by the Enterprises to finance multifamily properties. Multifamily properties have five or more units and are primarily rental apartment communities. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

Sentencings of Co-Conspirators in Loan Origination Scheme, New York			
Defendant	Role	Most Recent Action	Date
Nimboko Miller	Participant	Sentenced to 3 years of supervised release.	July 30, 2018
Christopher Scott, Jr.	Participant	Sentenced to 3 years of supervised release.	June 20, 2018

Four Indicted in Multi-Million Dollar Mortgage Fraud Scheme, New York			
Defendant	Role	Most Recent Action	Date
Frank Giacobbe	Business Owner	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, and bank fraud.	May 22, 2018
Patrick Ogiony	Managing Director	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, and bank fraud.	May 22, 2018
Kevin Morgan	Vice President	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, and bank fraud.	May 22, 2018
Todd Morgan	Project Manager	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud, and bank fraud.	May 22, 2018

## Appendix J: OI Publicly Reportable Investigative Outcomes Involving Fraud Affecting the Enterprises, the FHLBanks, or FHLBank Member Institutions

Investigations in this category include a variety of schemes involving Fannie Mae, Freddie Mac, the FHLBanks, or members of FHLBanks. Below are the names of the defendants in these schemes, their roles, the most recent actions in the cases, and the date of those actions.

### Real Estate Broker and Homeowner Sentenced and Business Partner Indicted for \$3.5 Million ‘Shotgun’ Loan Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Michael Arroyo	Real Estate Broker	Sentenced to 21 months in prison, 5 years of supervised release, and ordered to pay \$281,000 in restitution.	September 13, 2018
Rafael Popoteur	Homeowner	Sentenced to 3 years of supervised release, and ordered to pay \$440,000 in restitution.	September 13, 2018
Saoud Rihan	Business Partner	Charged by indictment with conspiracy to commit bank fraud.	September 11, 2018

### Guilty Pleas of Credit Union Employees as Part of Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Jamelah Martinez	Bank Employee	Pled guilty to conspiracy to commit bank fraud.	September 13, 2018
Devin Williams	Bank Employee	Pled guilty to conspiracy to commit bank fraud.	May 31, 2018

### Three Indicted in Alleged \$364 Million Ponzi Scheme with Over 400 Victims Nationwide, Maryland

Defendant	Role	Most Recent Action	Date
Kevin Merrill	Participant	Charged by indictment with conspiracy to commit wire fraud, wire fraud, identity theft, money laundering conspiracy, and financial transactions in excess of \$10,000 in fraud proceeds.	September 11, 2018
Jay Ledford	Participant	Charged by indictment with conspiracy to commit wire fraud, wire fraud, identity theft, money laundering conspiracy, and financial transactions in excess of \$10,000 in fraud proceeds.	September 11, 2018
Cameron Jezierski	Participant	Charged by indictment with conspiracy to commit wire fraud and wire fraud.	September 11, 2018

### Two Plead Guilty and One Charged in \$1 Million Bank Loan Scheme, North Carolina

Defendant	Role	Most Recent Action	Date
Stanley Barron	Scheme Participant	Pled guilty to conspiracy to commit wire fraud and bank fraud.	August 29, 2018
Brian Lyles	Participant	Pled guilty to conspiracy to commit wire fraud and bank fraud and bank fraud.	April 5, 2018
Kimberlie Flemings	Scheme Participant	Charged by indictment with conspiracy to commit wire fraud and bank fraud, wire fraud affecting financial institutions, and financial instruction fraud.	March 13, 2018

### Indictment of Bank Vice President and Co-Conspirator, Mississippi

Defendant	Role	Most Recent Action	Date
Max Miller	VP and Commercial Relations Officer	Charged by indictment with bank fraud.	August 23, 2018
James Nichols	Participant	Charged by indictment with bank fraud.	August 23, 2018

**Former CEO and Chief Loan Officer of Failed Sonoma Valley Bank, and Borrower’s California Attorney, Sentenced to Multi-Year Prison Terms for Bank Fraud and Other Crimes, California**

Defendant	Role	Most Recent Action	Date
Sean Cutting	Former CEO	Sentenced to 100 months in prison and 3 years of supervised release.	August 3, 2018
Brian Melland	Former Chief Loan Officer	Sentenced to 100 months in prison and 3 years of supervised release.	August 3, 2018
David Lonich	Attorney	Sentenced to 80 months in prison, 3 years of supervised release, and ordered to pay \$20.8 million in forfeiture.	August 3, 2018

**Sentencing in Counterfeit HELOC Check Fraud Scheme, Florida**

Defendant	Role	Most Recent Action	Date
Virginia Nelson	Participant	Sentenced to 8 months of home confinement and 3 years of supervised release.	August 3, 2018

**Former Business Owner Convicted in Federal Court for Over \$49 Million Bank Fraud, Maryland**

Defendant	Role	Most Recent Action	Date
Mark Gaver	Business Owner	Found guilty at trial on charges of bank fraud and money laundering.	August 1, 2018

**Sentencing in Mortgage Refinance Ponzi Scheme, Ohio**

Defendant	Role	Most Recent Action	Date
Erick Parker	Business Owner	Sentenced to 41 months in prison, 3 years of supervised release.	July 17, 2018

**Sentencing of Mortgage and Title Company Owner in Lien Fraud Scheme, Virginia**

Defendant	Role	Most Recent Action	Date
Roberto Jaramillo	Mortgage and Title Company Owner	Sentenced to 33 months in prison, 5 years of supervised release, and ordered to pay \$696,654 in restitution and \$1,259,610 in forfeiture.	July 12, 2018

### Sentencings of Bank Executives and Real Estate Investor, Missouri

Defendant	Role	Most Recent Action	Date
Shaun Hayes	Bank Executive	Sentenced to 68 months in prison, 5 years of supervised release, and ordered to pay \$5,048,003 in restitution, joint and several.	May 29, 2018
Michael Litz	Real Estate Investor	Sentenced to 36 months in prison, 5 years of supervised release, and ordered to pay \$5,048,003 in restitution, joint and several.	May 14, 2018
Timothy Murphy	Loan Officer/ Executive Vice President	Sentenced to 5 years of supervised release and ordered to pay \$4,016,780 in restitution, joint and several.	April 24, 2018

### Guilty Plea in Contractor Kickback Scheme, New York

Defendant	Role	Most Recent Action	Date
Shikha Mohta	Participant	Pled guilty to conspiracy.	April 2, 2018

# Appendix K: Glossary and Acronyms

## Glossary of Terms

**Bankruptcy:** A legal procedure for resolving debt problems of individuals and businesses; specifically, a case filed under one of the chapters of Title 11 of the U.S. Code.

**Conservatorship:** A legal procedure for the management of financial institutions for an interim period during which the institution’s conservator assumes responsibility for operating the institution and conserving its assets. Under the Housing and Economic Recovery Act of 2008, the Enterprises were placed into conservatorships overseen by FHFA. As conservator, FHFA has undertaken to preserve and conserve the assets of the Enterprises and restore them to safety and soundness. FHFA also has assumed the powers of the boards of directors, officers, and shareholders; however, the day-to-day operational decision-making of each company is delegated by FHFA to the Enterprises’ existing management.

**Default:** Occurs when a mortgagor misses one or more payments.

**Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:** Legislation that intends to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end “too big to fail,” to protect the American taxpayer by ending bailouts, and to protect consumers from abusive financial services practices.

**Fannie Mae:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing

mortgages, Fannie Mae supplies funds to lenders so they may make loans to home buyers.

**Federal Home Loan Bank System (FHLBank System):** The FHLBanks are 11 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades. The FHLBanks provide loans (or “advances”) to their member banks but do not lend directly to individual borrowers.

**Fiscal Year 2018:** OIG’s FY 2018 covers October 1, 2017, through September 30, 2018.

**Foreclosure:** A legal process used by a lender to obtain possession of a mortgaged property in order to repay part or all of the debt.

**Freddie Mac:** A federally chartered corporation that purchases residential mortgages and pools them into securities that are sold to investors. By purchasing mortgages, Freddie Mac supplies funds to lenders so they may make loans to home buyers.

**Government-Sponsored Enterprises (GSEs):** Business organizations chartered and sponsored by the federal government. The GSEs regulated by FHFA also are referred to as regulated entities.

**Guarantee:** A pledge to investors that the guarantor will bear the default risk on a pool of loans or other collateral.

**Housing and Economic Recovery Act of 2008:** Legislation that established FHFA and OIG. HERA also expanded Treasury’s authority to provide financial support to the regulated entities and enhanced FHFA’s authority to act as conservator or receiver.



**Inspector General Act of 1978:** Legislation that authorizes establishment of offices of inspectors general, “independent and objective units” within federal agencies, that: (1) conduct and supervise audits and investigations relating to the programs and operations of their agencies; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of agency programs and to prevent and detect fraud, waste, or abuse in such programs and operations; and (3) provide a means for keeping the head of the agency and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

**Inspector General Reform Act of 2008:** Legislation that amends the Inspector General Act to enhance the independence of inspectors general and to create the Council of the Inspectors General on Integrity and Efficiency.

**Internal Controls:** Processes effected by an entity’s oversight body, management, and other personnel that provide reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) operations—effectiveness and efficiency of operations; (2) reporting—reliability of reporting for internal and external use; and (3) compliance—compliance with applicable laws and regulations. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of resources.

**Mortgage-Backed Securities:** Debt securities that represent interests in the cash flows—anticipated principal and interest payments—from pools of mortgage loans, most commonly on residential property.

**Real Estate Owned:** Foreclosed homes owned by government agencies or financial institutions, such as the Enterprises or real estate investors. REO homes represent collateral seized to satisfy unpaid mortgage loans. The investor or its representative must then sell the property on its own.

**Securitization:** A process whereby a financial institution assembles pools of income-producing assets (such as loans) and then sells securities representing an interest in the assets’ cash flows to investors.

**Senior Preferred Stock Purchase Agreements:** Entered into at the time the conservatorships were created, the PSPAs authorize the Enterprises to request and obtain funds from Treasury, among other matters. Under the PSPAs, the Enterprises agreed to consult with Treasury concerning a variety of significant business activities, capital stock issuance, dividend payments, ending the conservatorships, transferring assets, and awarding executive compensation.

**Servicers:** Intermediaries between mortgage borrowers and owners of the loans, such as the Enterprises or mortgage-backed securities investors. Servicers collect the borrowers’ mortgage payments, remit them to the owners of the loans, maintain appropriate records, and address delinquencies or defaults on behalf of the owners of the loans. For their services, they typically receive a percentage of the unpaid principal balance of the mortgage loans they service. The recent financial crisis has put more emphasis on servicers’ handling of defaults, modifications, short sales, and foreclosures, in addition to

their more traditional duty of collecting and distributing monthly mortgage payments.

**Short Sale:** The sale of a mortgaged property for less than what is owed on the mortgage.

**Straw Buyer:** A person whose credit profile is used to serve as a cover in a loan transaction. Straw buyers are chosen for their ability to qualify for a mortgage loan, causing loans that would ordinarily be declined to be approved. Straw buyers are often paid a fee for their involvement in purchasing a property and usually never intend to own or occupy the property.

**Underwater:** Term used to describe situations in which the homeowner's equity is below zero (i.e., the home is worth less than the balance of the loan[s] it secures).

**Underwriting:** The process of analyzing a loan application to determine the amount of risk involved in making the loan. It includes a review of the potential borrower's credit worthiness and an assessment of the property value.

**Upfront Fees:** One-time payments made by lenders when a loan is acquired by an Enterprise. Fannie Mae refers to upfront fees as "loan level pricing adjustments" and Freddie Mac refers to them as "delivery fees."

## Acronyms and Abbreviations

		FSOC	Financial Stability Oversight Council
Agency	Federal Housing Finance Agency	FY 2018	Fiscal Year 2018
ARM	Adjustable-Rate Mortgage	GAGAS	Generally Accepted Government Auditing Standards
Blue Book	<i>Quality Standards for Inspection and Evaluation</i>	GAO	Government Accountability Office
CEO	Chief Executive Officer	HELOC	Home Equity Line of Credit
CIGFO	Council of Inspectors General on Financial Oversight	HERA	Housing and Economic Recovery Act of 2008
CIGIE	Council of the Inspectors General on Integrity and Efficiency	HUD-OIG	Department of Housing and Urban Development Office of Inspector General
DER	Division of Enterprise Regulation	IG	Inspector General
DHMG	Division of Housing Mission and Goals	IRS-CI	Internal Revenue Service-Criminal Investigation
DOC	Division of Conservatorship	IT	Information Technology
DOJ	Department of Justice	MBS	Mortgage-Backed Securities
EIC	Examiner-in-Charge	MRA	Matter Requiring Attention
Enterprises	Fannie Mae and Freddie Mac	MSR	Mortgage Servicing Right
FBI	Federal Bureau of Investigation	NGC	Nominating and Corporate Governance Committee of the Fannie Mae Board of Directors
FDIC	Federal Deposit Insurance Corporation	NIST	National Institute of Standards and Technology
FHFA	Federal Housing Finance Agency	OA	Office of Audits
FHLBank	Federal Home Loan Bank		

OCom	Office of Compliance and Special Projects
OE	Office of Evaluations
OHRP	Office of Housing and Regulatory Policy
OI	Office of Investigations
OIG	Federal Housing Finance Agency Office of Inspector General
ORA	Office of Risk Analysis
PII	Personally Identifiable Information
PSPA	Senior Preferred Stock Purchase Agreement
REO	Real Estate Owned
RMBS	Residential Mortgage-Backed Securities
ROE	Report of Examination
SA	Special Agent
SEO	Senior Executive Officer
SGE	Senior Government Employee
SVB	Sonoma Valley Bank
TCRs	Tips, Complaints, or Referrals
Treasury	U.S. Department of the Treasury

# Appendix L: Endnotes

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<sup>1</sup> [12 U.S.C. § 4617\(b\)\(2\)\(A\), \(B\), \(D\)](#) (2017).

Accessed: September 28, 2018.

<sup>2</sup> FHFA Suspended Counterparty Program,

[12 C.F.R. pt. 1227](#) (2018). Accessed:

September 28, 2018.







# FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

## SEMIANNUAL REPORT TO THE CONGRESS

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