



FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

April 1, 2020, through September 30, 2020



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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, riskbased, 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 \$6 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.fhfaig.gov/ReportFraud or calling (800) 793-7724.

Snapshot of OIG Accomplishments

**Semiannual Reporting Period
April 1, 2020–September 30, 2020**

Reports Issued	20
Includes audits, evaluations, compliance reviews, a special report, a management advisory, a risk assessment, administrative inquiries, and white papers	
Recommendations Made or Reopened	16
Investigative Activities:	
Indictments / Charges	33
Arrests	41
Convictions / Pleas	25
Sentencings	16
Suspension / Debarment Referrals to Other Agencies	20
Suspended Counterparty Referrals to FHFA	11
Investigative Monetary Results:	
Criminal Restitution	\$7,095,984
Criminal Fines / Special Assessments / Forfeitures	\$22,217
Investigations Total Monetary Results*	\$7,118,201

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

A Message from the Inspector General

I am pleased to present this Semiannual Report on the operations of OIG, which covers the period from April 1, 2020, to September 30, 2020.

Around the world, the coronavirus pandemic has caused significant human suffering. Although national and regional COVID restrictions led FHFA-OIG to close its physical offices in March 2020, we were telework-ready and continued our oversight efforts to improve the effectiveness and efficiency of FHFA's programs and operations and to prevent and detect fraud, waste, and abuse, without delay or interruption. Investments in our information infrastructure, advance planning and dedication of our support staff enabled us to transition, seamlessly, to telework collaboratively and securely. We have identified best practices and safety protocols to use in considering a safe, responsible, and gradual return to our physical office spaces.



Laura S. Wertheimer
Inspector General

The high rate of unemployment caused by the pandemic, coupled with statutory mortgage forbearance available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), up to \$659 billion available to small businesses under the Paycheck Protection Program (PPP), and projected increases in mortgage and renter delinquencies, make our efforts to detect and report on waste, fraud, and abuse absolutely vital. Now, more than ever, our fellow citizens depend on us to be a first-rate independent oversight organization.

During this reporting period, we published 20 reports, including audits, evaluations, compliance reviews, a special report, a management advisory, a risk assessment, administrative inquiries, 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. These 20 reports illustrate the broad scope of our oversight responsibilities and the extensive efforts we have undertaken during this semiannual period, despite the pandemic. Two of these reports focused on oversight related to the pandemic response.

- We reviewed the Enterprises' oversight of servicers' compliance with mortgage forbearance authorized by the CARES Act and implementing guidance. We found that neither Enterprise had a basis to determine servicer compliance with the statutory forbearance requirement. We surveyed 60 websites hosted by servicers and could not determine whether homeowners were provided with accurate and complete information about forbearance. (See OIG, [Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers](#) (OIG-2020-004, July 27, 2020)).

- We also reported on our efforts, with other law enforcement partners, to identify and investigate alleged fraud involving PPP loans under the CARES Act. The goal of these investigations is to move quickly to preserve PPP assets and deter future criminal conduct through the publication of such enforcement efforts. We issued a Management Advisory reporting on our efforts in eight of these PPP investigations. (See OIG, [*Management Advisory: FHFA-OIG's Investigation of Allegations of Fraud Affecting Paycheck Protection Program Loans Obtained or Sought from Federal Home Loan Bank Member Institutions*](#) (OIG-2020-005, September 8, 2020)).

FHFA's new Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac and 2020 Scorecard "emphasize the need for the Enterprises and FHFA to prepare for a responsible exit from the conservatorships, following a roadmap with clear and appropriate milestones." Despite their high leverage, limited capital, conservatorship status for the past 12 years, and uncertain future, the Enterprises' guarantee portfolios have grown during conservatorship and, according to FHFA, their combined market share of newly issued mortgage-backed securities is more than 70%. As of June 30, 2020, the Enterprises collectively reported more than \$6 trillion in assets. FHFA recognizes that it must implement a strong and well-executed supervision (examination) program prior to ending the conservatorships. To that end, it must perform "consistently rigorous, timely, and effective" examination work, and allocate "additional resources [] efficiently . . . to meet the needs of critical areas such as risk modeling and information technology." FHFA also recognizes that fixing the corporate cultures at Fannie Mae and Freddie Mac is "a fundamental prerequisite" to the Enterprises exiting conservatorship and acknowledged that the Agency has "a lot of work to do on that front."

Our work during this reporting period and prior periods demonstrates that preparing for, much less executing, the Enterprises' exit from conservatorship will be an enormous task. We have identified four serious management and performance challenges and a management concern based on our body of work since October 2014 that FHFA must address in order to advance its mission priorities.

In March 2020, we explained the chronic and pervasive deficiencies in the design and execution of FHFA's supervision program of the Enterprises based on the findings from 34 of our published reports. We grouped these deficiencies into four categories: (1) examination guidance and execution; (2) size of the examiner workforce, and training and qualifications of its members; (3) communication of supervisory findings; and (4) quality control. To remediate the deficiencies identified by us (and by FHFA) before the Enterprises are released from conservatorship, FHFA must accomplish a great deal in a relatively short period. (See OIG, [*FHFA Faces a Formidable Challenge: Remediating the Chronic and Pervasive Deficiencies in its Supervision Program Prior to Ending the Conservatorships of Fannie Mae and Freddie Mac*](#) (OIG-2020-002, March 30, 2020)).

FHFA has reported to us that it has taken preliminary steps toward the goal of upgrading and strengthening its supervision program. Six months on from the publication of our March 2020 report, we are unaware of any key substantive decisions made by Agency leadership concerning the future of FHFA's supervision program. We are also unaware of critical milestones or project deadlines established by FHFA for the development of this program. And we are unaware of the Agency's execution of any plans in furtherance of its stated intention to implement a strong and well-executed supervision (examination) program prior to ending the conservatorships.

During this reporting period and prior periods, we also assessed FHFA's execution of its conservatorship responsibilities. Although FHFA has delegated back to the Enterprises authority for many matters, both large and small, FHFA is ultimately responsible, as conservator, for actions taken by the Enterprises pursuant to their delegated authority. As demonstrated by our body of work, FHFA has limited its oversight of delegated matters largely to attending (as an observer) Enterprise internal management and board meetings, and to engaging in discussions with Enterprise managers and directors. Read together, the findings in these reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of actions taken by the Enterprises pursuant to delegated authority. For example, our work has found that FHFA has not assessed the reasonableness of the Enterprises' implementation of FHFA's conservatorship directives. Nor has FHFA assessed the adequacy of the oversight exercised by the Enterprises' boards of directors over the actions of management. Our findings during this reporting period and prior ones about the weaknesses in the Enterprises' execution of their delegated responsibilities were echoed by Director Calabria in his recent congressional testimony.

Where our fact-finding identifies 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 15 new recommendations and reopened another. Appendix B of this report lists all recommendations made or reopened by us during this period, recommendations made in prior periods that remain open (and unimplemented), and closed, unimplemented recommendations. During each reporting period, we update the information in Appendix B as new recommendations are issued or recommendations are closed, and we publish the updated information monthly in a [Compendium of Open Recommendations](#) on our website.

We protect the interests of the American taxpayer through our robust law enforcement efforts and those of our partner law enforcement agencies with which we work collaboratively. The pandemic has delayed judicial proceedings, including grand jury deliberations, trials, and sentencing hearings. But this has not deterred our investigators. Equipped with appropriate personal protective equipment, they continued their efforts without interruption: opening new investigations; identifying and promptly investigating potential perpetrators of COVID relief fraud; and continuing ongoing work with law enforcement partners and with federal and state prosecutors.

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

During this reporting period, FHFA-OIG employees have repeatedly demonstrated steadfast dedication, unflagging professionalism, and a deep commitment to our mission, continuing to be energized by serving the public. 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, 2020

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.

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 thirteenth 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 competitive, liquid, efficient, 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) 2020**, OIG's operating budget remained at \$49.9 million.

This Report

This Semiannual Report to the Congress summarizes the work of OIG and discusses OIG operations for the reporting period of April 1, 2020, to September 30, 2020. Among other things, this report:

- Explains OIG's risk-based oversight strategy;
- Discusses the 20 audits, evaluations, compliance reviews, special report, management advisory, risk assessment, administrative inquiries, and white papers published during the period;
- Highlights some of the numerous OIG investigations that resulted in 33 indictments/charges, 25 convictions/pleas, and 16 sentencings of individuals responsible for fraud, waste, or abuse in connection with programs and operations of FHFA and the Enterprises; and more than \$7 million in criminal restitutions, fines, special assessments, and forfeitures;
- 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 thirteenth year, are of unprecedented scope, scale, and complexity. FHFA's dual roles continue to present unique 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 April 2020, describes FHFA's and OIG's roles and missions, explains our risk-based methodology for developing this plan, provides insight into particular risks within five areas, and generally discusses areas where we will focus our audit, evaluation, and compliance resources. In addition to our risk-based work plan, OIG completes work required to fulfill its statutory mandates.

Management and Performance Challenges

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 and report to the FHFA Director, FHFA's [most serious management and performance challenges](#), which, if not addressed, could adversely affect FHFA's accomplishment of its mission. OIG continues 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. The management and performance challenges and the management concern are:

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

Under HERA, FHFA, as conservator, possesses all rights and powers of any stockholder, officer, or director of the Enterprises and is vested with express authority to operate the Enterprises and conduct their business activities. The Enterprises are large, complex financial institutions that dominate the secondary mortgage market and the mortgage **securitization** sector of the U.S.

housing finance industry. Given the taxpayers' enormous investment in the Enterprises, the unspecified timeline to end the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

FHFA has delegated authority to the Enterprises for many matters, both large and small. As conservator, FHFA can revoke delegated authority at any time, retains authority for certain significant decisions, and is ultimately responsible for actions taken by the Enterprises pursuant to their delegated authority.

OIG's body of work over the last six years has found that FHFA has limited its oversight of delegated matters largely to attendance at Enterprise internal management and board meetings as an observer and to discussions with Enterprise managers and directors. Read together, the findings in these reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions.

We have also found that FHFA has not clearly defined its expectations of the Enterprises for delegated matters, nor has it established the accountability standard that it expects the Enterprises to meet for such matters. Our work identified that certain **internal control** systems at the Enterprises were ineffective: they failed to provide directors with accurate, timely, and sufficient information to enable them to exercise their oversight duties. Likewise, we identified a lack of rigor by some directors in seeking information from management about the matters for which they are responsible. We also identified instances in which corporate governance decisions generally reserved to the board of directors have been delegated to management.

Over the past six years, OIG's work has found that FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. FHFA has established written internal review and approval processes for non-delegated matters, designed to provide a consistent approach for tracking, analyzing, and resolving such matters and for providing decision-makers with all relevant facts and existing analyses.

Because FHFA, as the Enterprises' conservator, is ultimately responsible for actions taken by the Enterprises, FHFA is challenged to improve the quality of its oversight of matters it has delegated to the Enterprises for the duration of the conservatorships and ensure that its established processes are followed for non-delegated matters to promote reasoned decision-making.

Supervision of the Regulated Entities: Upgrade Supervision of the Enterprises and Continue Supervision Efforts of the FHLBanks

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by HERA 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, the Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks, and the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises.

In its most recent annual Performance and Accountability Reports, FHFA cited its supervisory authority as its basis for ensuring the safe and sound operation of the Enterprises:

FHFA promotes safe and sound operations of the regulated entities through the Agency's *supervisory program*. FHFA conducts supervision using a risk-based approach that prioritizes examination activities based on the risk that a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations. (Emphasis added.)

FHFA has advised that effective safety and soundness supervision "is essential to preparing the Agency and the Enterprises to responsibly exit and operate safely outside of conservatorship."

Prior to the start of the COVID-19 pandemic, FHFA announced that the Enterprises may emerge from conservatorship as early as 2021, and that FHFA has a roadmap by which to end those conservatorships. In January 2020, FHFA announced a realignment of its structure, which, in part, was designed to enhance its capacity to supervise the Enterprises. In March 2020, we reviewed the more than 40 reports we issued since October 2014 on FHFA's supervision program for the Enterprises. Thirty-four of these reports, read together, detailed chronic and pervasive deficiencies in the program itself, as well as in its execution. We identified deficiencies in these areas: (1) examination guidance and execution; (2) the size of the examiner workforce, and the training and qualifications of its members; (3) the communication of supervisory findings; and (4) quality control.

Consequently, we cautioned that the challenge now facing FHFA is formidable. To remediate the deficiencies identified by us (and by FHFA) before the Enterprises are released from conservatorship, FHFA must accomplish a great deal in a relatively short period. Success will require a sustained, disciplined, and robust effort on the part of FHFA, led by an accountable senior executive. It will demand disciplined project management, including the establishment of clear roles and responsibilities, work product deliverables, milestones, and specific timelines.

FHFA has taken preliminary steps toward the goal of upgrading and strengthening its supervision program. The Agency informed OIG on June 30, 2020, that it engaged a contractor to prepare

an “organizational optimization Blueprint” to ensure that FHFA “has the optimal workforce, infrastructure, and organization to carry out its supervisory mission in a post-conservatorship environment.” More recently, on September 22, 2020, FHFA announced a new strategic plan for the Agency (the plan covers FYs 2021-24). Among other things, the new strategic plan establishes an objective for the Agency to “develop and maintain a world-class supervision program.” The means and strategies to achieve this objective include, for example, “[a]dvance supervision practices, processes, systems, and tools to improve the efficiency and efficacy of the supervision programs...”

Six months have passed since our March 2020 report in which we summarized the chronic and pervasive shortcomings in FHFA’s supervision program, and we are unaware of any key substantive decisions about the future of FHFA’s supervision program made by Agency’s leadership; establishment of critical milestones or project deadlines; or the execution of any plans in furtherance of the Agency’s stated intention to implement a strong and well-executed supervision (examination) program prior to ending the conservatorships.

The magnitude of the risk posed by the Enterprises is significantly greater than the magnitude of the risk posed by the FHLBanks together because the asset size of the latter is a fraction of the asset size of the former. For that reason, most of FHFA-OIG’s work on supervision issues has focused on FHFA’s supervision of the Enterprises. However, we also looked at elements of FHFA’s supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

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

Cybersecurity is a pressing issue for the regulated entities. In December 2019, the Financial Stability Oversight Council (FSOC), of which FHFA is a member, reported:

The increasing reliance of the financial sector on information technology across a broadening array of interconnected platforms increases the risk that a cybersecurity event will have severe consequences for financial institutions. . . . Sustained senior-level commitment to mitigate cybersecurity risks and their potential systemic implications is necessary at both member agencies and private firms.

FHFA’s regulated entities are central components of the U.S. financial system and are interconnected with other large financial institutions. As part of their processes to **guarantee** or purchase mortgage loans, the Enterprises receive, store, and transmit significant information about borrowers, including financial data and personally identifiable information. Both the Enterprises and the FHLBanks have been the targets of cyber attacks.

FHFA recognizes that its regulated entities face significant operational risk from information security and cybersecurity threats. The Agency has cited this as an area of critical importance due to the Enterprises' concentration of borrower information and their market importance. Further, FHFA has acknowledged that several FHLBanks have issues with vulnerability management, cloud computing, and other information technology (IT) matters.

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing appropriate examination activities for the cybersecurity protections for the financial institutions it supervises. These examination activities may be made increasingly difficult by FHFA's continuing need to attract and retain highly qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

Cybersecurity is also a pressing concern for the federal government, as reflected by President Trump's May 2017 executive order regarding strengthening the cybersecurity of federal networks and critical infrastructure. FHFA has computer networks that are part of the nation's critical financial infrastructure, and FHFA is required to design information security programs to protect them. Computer networks maintained by federal government agencies have been proven to be a tempting target for disgruntled employees, hackers, and other intruders. Over the past few years, cyber attacks against federal agencies have increased in frequency and severity. As cyber attacks continue to evolve and become more sophisticated and harder to detect, they pose an ongoing challenge for virtually every federal agency to fortify and safeguard its internal systems and operations.

Our annual audits performed pursuant to the Federal Information Security Modernization Act of 2014 (FISMA) are intended to ensure FHFA's compliance with information security program standards and assist FHFA in strengthening protections over its network operations against those who would seek to attack its network. For FY 2019, an independent public accounting firm under contract with OIG determined that FHFA implemented an effective information security program and practices and complied with FISMA, Office of Management and Budget guidance, and sampled security controls selected from NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. The firm also made multiple recommendations to assist FHFA in strengthening its information security program.

FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

Counterparties and Third Parties: Enhance Oversight of the Enterprises' Relationships with Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties to properly originate and service the mortgages the Enterprises purchase and to provide operational support for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including risks related to information security, business continuity, and other safety and soundness issues. As FSOC has cautioned:

Financial institutions have become increasingly reliant on third-party service providers to perform important business functions. . . . While outsourcing can have advantages, reliance on third-party service providers also has risks. . . . While cloud providers may offer superior cost or technological solutions, there have also been recent instances of unauthorized access to client data at cloud providers. The reliance of many institutions on a single vendor to provide a critical service creates concentration risk. A service interruption or cyber event at a critical vendor with a large number of clients could result in widespread disruption in access to financial data and could impair the flow of financial transactions.

There also is risk that a counterparty may not meet its contractual obligations. FSOC has noted, “Nonbanks have a particularly important role as providers of mortgage credit and servicing to low-income and riskier borrowers. However, most nonbank mortgage companies have fewer resources to absorb adverse shocks and are more dependent on short-term funding than banks.” In March 2020, FHFA expressed concern that nonbank servicers might be at risk of failing during the coronavirus pandemic as a consequence of the forbearance relief made available to homeowners under the CARES Act.

Another risk is that a counterparty may engage in fraudulent conduct. Our publicly reportable criminal investigations include inquiries into alleged fraud by a variety of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies. These illustrate that the risk of fraudulent conduct by counterparties and third parties is both real and multifaceted.

FHFA has delegated to the Enterprises the management of their relationships with counterparties and third parties, and it reviews their management largely through its supervisory activities. We have noted above our significant concerns with the strength and rigor of those supervisory activities. In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to effectively oversee the Enterprises' management of these risks.

Management Concern: Sustain and Strengthen Internal Controls Over Agency and Enterprise Operations

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.

Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

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, OIG's Office of Risk Analysis (ORA) enhances 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.

During this reporting period, ORA issued four white papers discussing areas of potential emerging and ongoing risks.

White Paper: Enterprise Monitoring of Cloud Computing Service Providers

The Enterprises rely heavily on counterparties and third-parties to originate and service the mortgages the Enterprises purchase and on third-parties to provide the operational support for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including counterparty, operational, cyber, and reputational risks. Each Enterprise has relationships with dozens of third-party cloud service providers and considers about half of its cloud providers to be inherently high-risk third-parties. FHFA lacks authority to supervise third-party cloud service providers under contract to the Enterprises. This white paper looks at the Enterprises' monitoring procedures for third-party cloud service providers, pursuant to FHFA Advisory Bulletin 2018-08, *Oversight of Third-Party Provider Relationships*. (See OIG, [*Enterprise Monitoring of Cloud Computing Service Providers*](#) (WPR-2020-005, August 12, 2020)).

White Paper: Enterprise Business Resiliency: Risk Assessment and Business Impact Analysis

According to the Federal Financial Institutions Examinations Council, resilience is "the ability to prepare for and adapt to changing conditions and withstand and recover rapidly from disruptions. Resilience includes the ability to withstand and recover from deliberate attacks, accidents, or naturally occurring threats or incidents." According to FHFA, ineffective business resiliency management can expose the Enterprises to operational, financial, legal, compliance, and reputational risks. FHFA, Fannie Mae, and Freddie Mac separately stressed to us the importance of strong business resiliency processes, given the Enterprises' critical mission and importance to the financial markets.

In light of the risks related to business resiliency, we have commenced a white paper series focused on business resiliency risk management at the Enterprises. In this white paper we describe the Enterprises' business resiliency risk management programs for the first component of the business resiliency cycle: risk assessment and business impact analysis. (See OIG, [*Enterprise Business Resiliency: Risk Assessment and Business Impact Analysis*](#) (WPR-2020-006, August 31, 2020)).

White Paper: Impact of Pandemic-Related Forbearance and Foreclosure Relief for Single-Family Mortgages on the Enterprises' Implementation of CECL

Fannie Mae and Freddie Mac implemented the Current Expected Credit Loss (CECL) methodology effective January 1, 2020. Under CECL, the Enterprises must estimate expected lifetime credit losses on covered assets from the time the assets are acquired and update the estimates for each reporting period. Both Enterprises expected an increase in credit losses on their single-family mortgages due to the COVID-19 pandemic and forbearance provided to borrowers.

This white paper discusses the impact of forbearance and foreclosure relief for single-family mortgages on the Enterprises' implementation of CECL during the first and second quarters of 2020. (See OIG, [*Impact of Pandemic-Related Forbearance and Foreclosure Relief for Single-Family Mortgages on the Enterprises' Implementation of CECL*](#) (WPR-2020-007, September 3, 2020)).

White Paper: Fannie Mae and Freddie Mac Purchases of eMortgages

The Enterprises define an eMortgage as a mortgage loan where the promissory note is created, executed, registered, transferred, and ultimately stored electronically, rather than by traditional paper documentation with a pen and ink signature. Other documents, such as the mortgage, can be paper or electronic records. Historically, the Enterprises' eMortgage purchases constituted a minimal portion of their overall business and did not start to grow rapidly until 2019 and 2020 but the Enterprises expect their eMortgage purchases will increase in the second half of 2020 and in 2021.

Use of eMortgages carries both risk management benefits and potentially heightened risks. This white paper provides an overview of the Enterprises' purchases of eMortgages, as well as eMortgage benefits and risks. (See OIG, [*Fannie Mae and Freddie Mac Purchases of eMortgages*](#) (WPR-2020-008, September 14, 2020)).

Administrative Inquiries

OIG conducts administrative inquiries to provide additional, targeted oversight where specific waste, fraud, and/or abuse has been alleged. 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 other reports require meaningful follow-up and oversight to ensure that the corrective actions proposed to address OIG's recommendations have been fully implemented, and that the shortcomings that gave rise to the recommendations have been addressed. OIG's 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:

Counsel on Closure of Recommendations

When FHFA believes that efforts to implement corrective actions are well underway or that implementation is complete, FHFA provides that information to us, along with corroborating documents. Each respective report-writing operational division that issues a recommendation reviews the materials and representations submitted by the Agency to determine whether to close the recommendations. In some instances, recommendations may be closed based on the Agency's representations regarding corrective actions it has taken. OCom tracks these decisions and communicates with each division prior to the closure of a recommendation to ensure that a single standard across OIG for closing recommendations is followed.

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 implemented corrective 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. Since January 2015, our validation testing found that FHFA adequately implemented 25 of the 37 recommendations (68%) tested but failed to implement the remaining 12 (32%). When OCom determines that a recommendation has not been implemented, the recommendation is reopened and tracked until FHFA takes corrective actions.

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 OCom. During this reporting period, OIG published 14 reports from these offices, all of which relate to the four ongoing major management and performance challenges and the management concern previously discussed. We also issued four white papers (summarized above), a management advisory discussed below in our discussion of the activities of the Office of Investigations, and an investigative summary of a whistleblower matter reported in Appendix A.

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. OA also oversees independent public accounting firms that perform certain audits of FHFA programs and operations.

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, known as the *Quality Standards for Inspection and Evaluation*.

Office of Compliance and Special Projects

Typically, when an agency accepts an OIG recommendation and takes steps to implement the corrective action, the agency reports on its efforts to the OIG and the OIG relies on materials and representations from the agency to close the recommendation. As explained in the prior section, the validation testing conducted by OCom holds FHFA accountable for the corrective actions it has represented as 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 standards CIGIE established for inspections and evaluations.

Oversight Activities This Period

As explained earlier, OIG publishes an annual Audit, Evaluation, and Compliance Plan setting forth the risk-based areas on which we intend to focus our audit, evaluation, and compliance resources during the calendar year. That risk-based work plan aligns OIG's oversight work to the most serious management and performance challenges and the management concern we have identified to FHFA.

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

FHFA, as conservator, has delegated responsibility to each Enterprise 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 issued two compliance reviews in connection with delegated matters.

Delegated Matter: Freddie Mac Management Failed to Adopt and Implement Conflicts of Interest Policies Which Aligned Fully with FHFA's Directive on Senior Executive Officers' Conflicts of Interest, and With the Charter for the Freddie Mac Board's Nominating and Governance Committee

In a September 2017 Management Alert to FHFA, we found that Freddie Mac's conflict of interest (COI) policies and procedures involving executive officers were not aligned with the Freddie Mac Nominating and Corporate Governance Committee's (NGC's) responsibilities. We recommended that FHFA, as conservator, direct the Freddie Mac Board of Directors to clarify the scope of the NGC's responsibilities under its Charter that relate to COI involving executive officers, and direct Freddie Mac to revise its policies and procedures to align with the NGC's responsibilities. FHFA issued a Directive establishing its expectations concerning both Enterprises' internal processes for disclosing and resolving actual and potential COI involving senior executive officers. In our compliance review, we found that Freddie Mac failed to comply

with key requirements of the Directive. Accordingly, we reopened a recommendation from our Management Alert. FHFA agreed with our reopened recommendation and committed to direct Freddie Mac to revise its COI policy and procedures and require the Enterprise to train its Ethics Office staff on those revisions. (See OIG, [*Freddie Mac Management Failed to Adopt and Implement Conflicts of Interest Policies Which Aligned Fully with FHFA's Directive on Senior Executive Officers' Conflicts of Interest, and With the Charter for the Freddie Mac Board's Nominating and Governance Committee*](#) (COM-2020-006, August 26, 2020)).

Delegated Matter: Compliance Review Found that Fannie Mae Aligned Its Conflicts of Interest Policies and Procedures for its Senior Executive Officers with FHFA's Directive

This report followed up on a 2018 evaluation in which we found failures by Fannie Mae's NGC in its oversight of COI involving senior Enterprise executive officers, including the Chief Executive Officer. In response, the Agency issued a Directive requiring Fannie Mae to review its governance documents for clarity and consistency; specify Board and management authorities and roles to align with FHFA's expectations; revise its governance documents as necessary; and create reporting relationships among the NGC, Fannie Mae's Office of Compliance and Ethics, and the Chief Compliance Officer as necessary. Our compliance review tested Fannie Mae's governance documents and found that they had been amended to comply with FHFA's Directive. (See OIG, [*Compliance Review of Fannie Mae's Conflicts of Interest Policies and Procedures Regarding its Senior Executive Officers*](#) (COM-2020-005, August 26, 2020)).

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 issued two evaluations, four audits, and one compliance review in connection with FHFA's supervision of its regulated entities.

FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight

FHFA requires each Enterprise to report fraud or possible fraud that may have a significant impact on that Enterprise within one calendar day of discovery. In December 2017, Fannie Mae submitted an Immediate Notification Fraud Reporting Form to FHFA regarding a servicer's improper use of taxes and insurance custodial funds. After discovery of the potential fraud, the Enterprise performed multiple internal reviews of its processes concerning, and controls over, servicers' custodial accounts. The reviews identified shortcomings and some root causes for the incident and suggested improvements.

We assessed FHFA's supervisory responses to the internal reviews and Immediate Notification. When an examiner identifies or otherwise learns of a potential deficiency that may warrant supervisory attention, it is incumbent on the examiner to bring the potential deficiency to the attention of the examiner's supervisor for consideration and a decision on how to proceed. In examination activities most relevant to our evaluation, we found that DER examiners engaged in limited, siloed supervision activities and failed to assess whether the shortcomings and root causes identified in the internal reviews were inconsistent with FHFA supervisory expectations. Additionally, we found no evidence in the workpapers that any of the examiners escalated the red flags in the internal reviews to his/her examination manager or the Examiner-in-Charge for discussion or decision.

While we cannot conclude on the overall rigor and effectiveness of DER's supervision program based on this case study, the issues that we observed, specifically, examiners' failure to identify and raise shortcomings with DER management for discussion and decision, especially after those shortcomings were flagged by an Enterprise, would significantly impede the effectiveness of the supervision program if they were widespread. We made three recommendations to address the shortcomings our evaluation identified. FHFA agreed with two of our recommendations and partially agreed with the third. We consider FHFA's alternative management action for the third recommendation to be responsive to the recommendation. (See OIG, [*FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight*](#) (EVL-2020-002, August 27, 2020)).

Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives

In 2014, at the direction of FHFA, the Enterprises submitted 97% loan-to-value (LTV) mortgage program proposals designed to provide access to credit and homeownership opportunities for creditworthy borrowers who have sufficient income and an ability to pay a mortgage but lack the means to make a large down payment and pay closing costs. In the analysis supporting program approval in December 2014, FHFA identified its oversight as an important risk mitigant and explained that a critical portion of that oversight involved FHFA review of regular reports submitted by the Enterprises on loan delivery volumes, loan performance, and average credit parameters. We performed this audit to assess whether the risk mitigant of FHFA's review of Enterprise data on loan delivery volumes, loan performance, and average credit parameters for the Enterprises' 97% LTV mortgage programs occurred during the period January 1, 2017, through December 31, 2019.

Our audit found weaknesses in the process established by FHFA's Office of Housing and Regulatory Policy to monitor the Enterprises' 97% LTV mortgage programs that may hinder its ability to timely identify, analyze, and respond to risks related to achieving the programs' objectives. FHFA failed to define measurable objectives or establish risk tolerances for the Enterprises' 97% LTV mortgage programs. Further, we found that FHFA did not provide written guidance to the Enterprises for reporting data nor establish procedures to assess the quality of the data received from the Enterprises, which led to monitoring reports based on incomplete or inconsistent data. Finally, we determined that FHFA did not follow its own guidance beginning in 2019 requiring the preparation of periodic monitoring dashboards, which are used to document its analysis of Enterprise data related to the 97% LTV mortgage programs. Such weaknesses, taken along with policy changes initiated by FHFA based on policy monitoring activities other than the monitoring dashboards, call into question whether the oversight contemplated by the December 2014 staff analysis has been consistently performed. We made three recommendations to address our findings. FHFA agreed with one, disagreed with one, and provided an alternative approach that we consider responsive to the third recommendation. (See OIG, [*Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives*](#) (AUD-2020-014, September 29, 2020)).

More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations

FHFA, and other federal financial regulators, consider classification of loans according to risk characteristics to be critical in assessments of a financial institution's safety and soundness. In April 2012, FHFA issued Advisory Bulletin (AB) 2012-02, *Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention*, which establishes a system for loan classification that aligns with the practices used by other federal financial regulators and provides consistency between the Enterprises. It directs the regulated entities to classify any outstanding loan balance in excess of the fair value of the property, less cost to sell, as "Loss" when the single-family loan becomes no more than 180 days delinquent and to charge off the portions of those loans classified as loss so they are no longer considered an asset on the balance sheet (180-day charge-off threshold).

Notwithstanding the instruction in the advisory bulletin for a 180-day charge-off threshold, and a stated purpose to establish standard and uniform methodologies between the Enterprises, neither Enterprise has implemented the 180-day charge-off threshold and their charge-off practices exceed this threshold. In the eight years since it issued AB 2012-02, FHFA has not held the Enterprises to the 180-day threshold and has not articulated a new expectation in the form of a revised advisory bulletin or other Agency guidance. As a result, AB 2012-02 does not accurately reflect the Agency's supervisory expectations or the Enterprises' actual charge-off practices. The expected increase in credit losses due to the COVID-19 pandemic, as well as accounting changes from the Enterprises' adoption of the CECL framework, underscores the need for FHFA to articulate clear expectations to ensure the Enterprises recognize losses in a timely fashion and to oversee Enterprise implementation of those expectations.

We made two recommendations to address the shortcomings our evaluation identified. In a written management response, FHFA agreed with both recommendations; however, the Agency did not commit to a time frame by which it would revise the advisory bulletin after it determines the appropriate charge-off threshold or criteria. As a consequence, FHFA's time frame for completing its actions is open-ended, and its leisurely approach to revising the advisory bulletin is incongruent with the Agency's supervisory posture that classification of loans according to risk characteristics is a critical factor in assessing the safety and soundness of the Enterprises. (See OIG, [*More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations*](#) (EVL-2020-003, September 10, 2020)).

DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings

The Agency's DBR has established minimum frequencies (annual, biennial, or triennial) for performing work programs that pertain to the FHLBanks and the Office of Finance examinations. The Guidelines allow for exceptions to the minimum frequencies given the requisite justification and approval is documented in the examination work papers. DBR has also established a quality control program that performs reviews of DBR examination workpapers intended to ensure high quality work products that adhere to DBR's standards and requirements. We conducted this audit to determine whether DBR performed its examinations of the FHLBanks and the Office of Finance in accordance with the Minimum Frequency Guidelines. As part of our audit, we assessed the Quality Control Branch's (QCB) review of examinations for compliance with the Guidelines. We found that DBR examinations generally complied with the Minimum Frequency Guidelines but that some exceptions to those Guidelines were not documented and/or approved as required. In addition, DBR's QCB reviews failed to identify these shortcomings. FHFA agreed with the two recommendations we made to address our findings. (See OIG, [*DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings*](#) (AUD-2020-010, September 3, 2020)).

FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for 2019; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval

DER examiners engage in ongoing monitoring to analyze information and to identify Enterprise practices and changes in an Enterprise's risk profile that may warrant supervisory attention, as well as to determine the status of the Enterprises' compliance with supervisory guidance and conservatorship directives and remediation of Matters Requiring Attention. Ongoing monitoring is one of the two types of supervisory activities conducted by DER; the other supervisory activity is a targeted examination. We performed this audit to determine whether DER completed its planned ongoing monitoring activities for Fannie Mae and Common Securitization Solutions, LLC (CSS) for the 2019 examination cycle, and if it did not, whether it documented the deviations from its plans in accordance with its requirements.

For Fannie Mae, we found that DER timely completed 33 (89%) of the 37 planned ongoing monitoring activities for the 2019 examination cycle, cancelled 1 (3%) in accordance with DER requirements, and cancelled 3 (8%) in contravention of those requirements. Of the four cancelled ongoing monitoring activities, we found that DER documented a risk-based reason for cancelling

three of them and a non-risk-based reason (lack of resources) for cancelling the fourth ongoing monitoring activity. Also in contravention of DER requirements, we found that three of the four cancelled ongoing monitoring activities for Fannie Mae were not approved by the DER Deputy Director. For CSS, we found that 3 of the 5 planned ongoing monitoring activities were timely completed, one was completed after the examination cycle for which it was planned, and one was deferred. We found that the 2019 year-end examination plan did not document a risk-based reason for the one ongoing monitoring activity that was completed late (27 days after the Annual Supervisory Letter for that cycle) and documented a non-risk-based reason (also resource related) for the deferred planned ongoing monitoring activity. Neither of these changes to the 2019 CSS examination plan were approved by the Deputy Director. We made two recommendations, and we consider FHFA's planned corrective actions to be responsive to those recommendations. (See OIG, [*FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for 2019; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval*](#) (AUD-2020-011, September 9, 2020)).

FHFA Completed All of its Planned Ongoing Monitoring Activities for Freddie Mac for 2019

As a companion audit to AUD-2020-011 above, we determined whether DER completed its planned ongoing monitoring activities for Freddie Mac for the 2019 examination cycle, and if it did not, whether it documented the deviations from its plans in accordance with its requirements. We found that DER completed all 31 planned ongoing monitoring activities for the 2019 examination cycle before the 2019 report of examination (ROE) issued. (See OIG, [*FHFA Completed All of its Planned Ongoing Monitoring Activities for Freddie Mac for 2019*](#) (AUD-2020-012, September 9, 2020)).

Compliance Review of FHFA's Commitments to Conduct Quality Control Review of Examination Conclusions Prior to Including Them in Reports of Examination

This compliance review followed up on a 2017 audit, which found that DER issued an ROE on the results of a targeted examination for which it had not completed a quality control (QC) review. Our audit recommended that FHFA ensure that targeted examination conclusions presented in the ROE are based on work that, absent a waiver by the DER Deputy Director, has undergone QC review and been communicated in writing to the Enterprise. The Agency implemented corrective actions and we closed the recommendation. In our compliance review this period, we determined that, consistent with its corrective actions, DER had subjected all examination conclusions to a QC review and communicated them to the Enterprise in a conclusion letter prior to including them in a ROE. (See OIG, [*Compliance Review of FHFA's Commitments to Conduct Quality Control Review of Examination Conclusions Prior to Including Them in Reports of Examination*](#) (COM-2020-007, September 15, 2020)).

Information Technology Security

During the reporting period, we completed one audit regarding IT security.

FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts

FHFA uses cloud services provided by contractors to process, store, or transmit certain FHFA mission-related and non-mission related information. FHFA also uses a number of cloud security tools provided by contractors to assist in the oversight and management of its General Support System (GSS). FHFA's acquisition procedures direct that an IT security clause is included in contracts for externally hosted information systems operated by a contractor on behalf of FHFA. In April 2018, FHFA established a methodology to prioritize resources on information systems, including those in the cloud, that present the greatest risk to the Agency. Among other things, for cloud-based GSS tools, the methodology requires the validation of the implementation of minimum security requirements and the inclusion of IT security provisions in cloud service contracts. We performed this audit to determine whether FHFA followed its policies for cloud-based IT services during April 2018 through April 2020. We found that FHFA failed to follow its methodology by not validating the implementation of the minimum security requirements for its cloud-based GSS tools. We also found that FHFA did not include the required IT security provisions in some cloud service contracts. We made three recommendations, with which FHFA agreed. (See OIG, [*FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts*](#) (AUD-2020-013, September 17, 2020)).

Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services. 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 or third party will engage in fraudulent conduct. FHFA, as conservator, has delegated to the Enterprises the management of their relationships with counterparties and third parties, and it reviews their management largely through its supervisory activities.

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

Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers

Congress passed the CARES Act, which was signed into law on March 27, 2020, to address some of the adverse economic effects of the COVID-19 pandemic. Section 4022 of the CARES Act provides single-family homeowners, who are experiencing financial hardship due to the COVID-19 pandemic, the right to forbearance for up to 180 days (which can be extended for another 180 days) from making mortgage payments on loans owned or securitized by the Enterprises. An affected homeowner need only attest to the hardship; the Enterprises' mortgage servicers, counterparties who collect payments from borrowers and perform loss mitigation activities and other loan-related functions on behalf of the Enterprises, are prohibited from seeking documentation to support that attestation. FHFA publicly announced that homeowners will not be required to repay the missed or reduced payments in a lump sum payment once forbearance ends.

Servicing a mortgage in forbearance is more labor-intensive, and thus more costly, than servicing a performing mortgage. Servicers are obligated to advance principal and interest, or only interest depending on the servicer's contract with the Enterprise, for the first 120 days, as well as to make other payments, including property insurance and property taxes for the entire forbearance period. The potential financial burden associated with servicing mortgages in forbearance is significant and creates a risk that some servicers may not follow the mandates in the CARES Act and implementing guidance.

We undertook this review to provide information about oversight by the Enterprises over mortgage servicers' compliance with Section 4022 of the CARES Act and implementing guidance. We observed that neither Enterprise has collected data sufficient to permit an assessment of whether servicers are complying with the CARES Act and implementing guidance. The Enterprises reported to us that they have not asked any servicer to demonstrate compliance with the CARES Act and implementing guidance. National surveys conducted by one Enterprise suggested that a significant number of homeowners are not aware of the option of mortgage forbearance, and media reports stated that some servicers may have provided inaccurate advice to homeowners about repayment options. Because mortgage servicers are the primary point of contact for homeowners experiencing COVID-19 related financial hardship, we reviewed the information provided by a sample of 20 large servicers, 20 medium servicers, and 20 small servicers on their websites. Based on our survey of these websites, we could not determine whether homeowners were provided with accurate and complete information about forbearance. (See OIG, [*Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers*](#) (OIG-2020-004, July 27, 2020)).

Agency Operations and Internal Controls

During this reporting period, we issued one administrative inquiry, one risk assessment, and one compliance review relating to agency operations and internal controls.

Administrative Inquiry: OIG’s Review of a Hotline Complaint Alleging Improper Hiring of a Student Intern and Unauthorized Creation of Hiring Authorities

OIG conducted an administrative inquiry into an anonymous hotline complaint alleging that the Agency had: (1) hired a “student trainee” in the summer of 2019 who was no longer a student; and (2) created unauthorized “special hiring authorities” by which it improperly hired employees. We found no evidence to substantiate the allegation that the Agency had created special hiring authorities, but we did find that the Agency had re-appointed an individual who no longer qualified as a student to a student internship position, and thus the individual was ineligible for the appointment. The Agency asserted it was in the process of non-competitively converting the intern to an examiner position, and it was authorized to extend the intern appointment. We reported that the Agency would have to determine whether it had the appropriate hiring authority to appoint that individual to an examiner position. (See OIG, [*Summary of Administrative Inquiry: The Office of Inspector General’s Review of a Hotline Complaint Alleging Improper Hiring of a Student Intern and Unauthorized Creation of Hiring Authorities*](#) (OIG-2020-003, May 19, 2020)).

Risk Assessment of FHFA’s Government Purchase Card and Travel Card Programs July 1, 2019 – March 31, 2020

The Government Charge Card Abuse Prevention Act of 2012, as implemented by the Office of Management and Budget, requires, among other things, that the Inspector General of each executive agency conduct periodic risk assessments of agency purchase card (including convenience checks) and travel card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments to guide analyses or audits of these programs as necessary. We conducted a risk assessment of FHFA’s purchase card and travel card programs for the period July 1, 2019, to March 31, 2020, and concluded that the risk of illegal, improper, or erroneous purchases and payments through FHFA’s purchase card and travel card programs was low. Accordingly, we determined that an audit of the programs was not warranted for this assessment period. (See OIG, [*Risk Assessment of FHFA’s Government Purchase Card and Travel Card Programs July 1, 2019 – March 31, 2020*](#) (OIG-RA-2020-001, July 14, 2020)).

Compliance Review of the Agency's Maintenance of Vehicle Use Logs and Training its Employees on Vehicle Use

This report followed up on a December 2016 OIG administrative investigation that found the Agency had failed to maintain vehicle usage logs and that personnel responsible for providing transportation were not familiar with applicable regulations and policy. We had recommended that the Agency maintain detailed vehicle usage logs and provide training to staff tasked with providing executive transportation. During this reporting period, our compliance review found that the Agency implemented the corrective actions it had undertaken: its compliance rate for the preparation and maintenance of detailed logs for vehicle usage exceeded 99%, and it provided adequate training to personnel on applicable vehicle usage requirements. (See OIG, [Compliance Review of the Agency's Maintenance of Vehicle Use Logs and Training its Employees on Vehicle Use](#) (COM-2020-004, July 21, 2020)).

Reports and Recommendations

Below are the 20 audits, evaluations, compliance reviews, special report, management advisory, risk assessment, administrative inquiries, 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, www.fhfaig.gov, for a list of all reports issued by OIG since its inception.

Report	Date
Summary of Administrative Inquiry: The Office of Inspector General's Review of a Hotline Complaint Alleging Improper Hiring of a Student Intern and Unauthorized Creation of Hiring Authorities (OIG-2020-003)	May 19, 2020
Risk Assessment of FHFA's Government Purchase Card and Travel Card Programs July 1, 2019 – March 31, 2020 (OIG-RA-2020-001)	July 14, 2020
Compliance Review of the Agency's Maintenance of Vehicle Use Logs and Training its Employees on Vehicle Use (COM-2020-004)	July 21, 2020
Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers (OIG-2020-004)	July 27, 2020
Enterprise Monitoring of Cloud Computing Service Providers (WPR-2020-005)	August 12, 2020

Report	Date
<u>Compliance Review of Fannie Mae's Conflicts of Interest Policies and Procedures Regarding its Senior Executive Officers (COM-2020-005)</u>	August 26, 2020
<u>Freddie Mac Management Failed to Adopt and Implement Conflicts of Interest Policies Which Aligned Fully with FHFA's Directive on Senior Executive Officers' Conflicts of Interest, and With the Charter for the Freddie Mac Board's Nominating and Governance Committee (COM-2020-006)</u>	August 26, 2020
<u>FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight (EVL-2020-002)</u>	August 27, 2020
<u>Enterprise Business Resiliency: Risk Assessment and Business Impact Analysis (WPR-2020-006)</u>	August 31, 2020
<u>DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings (AUD-2020-010)</u>	September 3, 2020
<u>Impact of Pandemic-Related Forbearance and Foreclosure Relief for Single-Family Mortgages on the Enterprises' Implementation of CECL (WPR-2020-007)</u>	September 3, 2020
<u>Management Advisory: FHFA-OIG's Investigation of Allegations of Fraud Affecting Paycheck Protection Program Loans Obtained or Sought from Federal Home Loan Bank Member Institutions (OIG-2020-005)</u>	September 8, 2020
<u>FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for 2019; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval (AUD-2020-011)</u>	September 9, 2020
<u>FHFA Completed All of its Planned Ongoing Monitoring Activities for Freddie Mac for 2019 (AUD-2020-012)</u>	September 9, 2020

Report	Date
<u>More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations (EVL-2020-003)</u>	September 10, 2020
<u>Fannie Mae and Freddie Mac Purchases of eMortgages (WPR-2020-008)</u>	September 14, 2020
<u>Compliance Review of FHFA’s Commitments to Conduct Quality Control Review of Examination Conclusions Prior to Including Them in Reports of Examination (COM-2020-007)</u>	September 15, 2020
<u>FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts (AUD-2020-013)</u>	September 17, 2020
<u>Weaknesses in FHFA’s Monitoring of the Enterprises’ 97% LTV Mortgage Programs May Hinder FHFA’s Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs’ Objectives (AUD-2020-014)</u>	September 29, 2020
<u>Summary of Administrative Inquiry: The Office of Inspector General’s Investigation into Whistleblower Reprisal Allegations Made by a Former Employee of a Contractor (OIG-2020-006)</u>	September 30, 2020

Oversight Through OIG's Investigations

OIG is vested with statutory law enforcement authority which is exercised by its Office of Investigations (OI). OI conducts criminal and civil investigations into those, whether inside or outside of government, who engage in waste, theft, or abuse in connection with the programs and operations of the Agency and the regulated entities. OI is staffed with Special Agents (SAs), investigative counsel, analysts, and attorney-advisors who work in Washington, D.C., and field offices across the nation. OI has offices located within the metro area of several federal judicial districts that lead the nation in reported instances of mortgage fraud: the Southern District of Florida; the Northern District of Illinois; the Central District of California; and the New York metro area, which includes the Eastern and Southern Districts of New York. To maximize criminal and civil law enforcement efforts, OI works closely with other law enforcement agencies, including the Department of Justice (DOJ), the Federal Bureau of Investigation (FBI), the U.S. Department of Housing and Urban Development OIG (HUD-OIG), Internal Revenue Service-Criminal Investigation (IRS-CI), the Small Business Administration OIG (SBA-OIG), and state and local law enforcement entities nationwide.



OI is the only federal law enforcement organization that specializes in deterring and detecting fraud perpetrated against the Enterprises, and its commitment to its mission is essential to the well-being of the secondary mortgage market. Collectively, Fannie Mae and Freddie Mac hold more than \$6 trillion worth of mortgages on their balance sheets. Each year, the Enterprises acquire millions of mortgages worth several hundreds of billions of dollars. The potential for fraud in these circumstances is significant. OI also investigates cases involving the 11 regional FHLBanks and, in some instances, cases involving banks that are members of the FHLBanks.

To increase our effectiveness, three OIG attorney-investigators have been appointed Special Assistant U.S. Attorneys in several judicial districts. They have been assigned criminal matters arising from OI's investigations in the districts in which they have been appointed and have pursued these investigations to conviction and sentencing.

OI Investigations and Results

This reporting period presented unprecedented and challenging times. National and regional COVID-19 restrictions led OIG to close its physical offices in March 2020 and has delayed judicial proceedings, including grand jury deliberations, trials, and sentencing hearings. But this has not deterred our investigators. Equipped with appropriate personal protective equipment, they continued their efforts without interruption: new investigations were opened; potential

perpetrators of COVID-19 relief fraud were identified and promptly investigated; ongoing work with law enforcement partners and with federal and state prosecutors continued; and indictments were issued.

As a result of OI's investigations and work with prosecutors across the country, 16 defendants were sentenced to an aggregate total of 15 years in prison and criminal monetary penalties over \$7 million during this reporting period.

OI Monetary Results from Criminal Investigations April 1, 2020 – September 30, 2020	
Fines*	\$22,217
Restitutions	\$7,095,984
Total	\$7,118,201

*Includes criminal fines, forfeiture and special assessments imposed by federal courts.

Reports, Referrals, Prosecutions, and Convictions April 1, 2020 – September 30, 2020*	
Investigative Reports**	22
Criminal Referrals to DOJ	79
Criminal Referrals to State and Local Prosecuting Authorities	14
Indictments and Informations during the Reporting Period that Resulted from Referrals to Prosecutors during Prior Reporting Periods	13
Total Indictments and Informations during the Reporting Period Resulting from OIG Referrals	33
Trials	0
Defendants Tried	0
Convictions / Pleas	25
Sentencings	16

*All criminal charges and successive actions (pleas/convictions/sentencings) are supported with documents filed with the corresponding federal or state court, including non-public (sealed) documents. 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 table, an investigative report is defined as the Report of Investigation finalized at the conclusion of an investigation, prior to case closure.

From the inception of OIG to the present, OI's criminal investigations have resulted in over \$5 billion in orders of restitution, forfeiture, seizures, fines, and special assessments. Our civil investigations have resulted in over \$66 billion in civil settlements, recoveries, and fines.

Investigations: Criminal Cases

Below we highlight some OIG criminal investigations during this semiannual reporting period in several categories. These investigations resulted in criminal charges, convictions, sentencing, and court-ordered fines, forfeitures, and restitution judgments.

A summary of publicly reportable investigative outcomes for each criminal category during this reporting period and a description of each category may be found at Appendices C-J.

Fraud Involving PPP Loans Obtained or Sought from FHLBank Member Institutions

The CARES Act established the Paycheck Protection Program (PPP), which authorized up to \$659 billion for small businesses to pay up to eight weeks of payroll costs, including benefits, and to pay interest on mortgages, rent, and utilities. The PPP allowed the interest and principal to be forgiven if businesses spend the proceeds on these expenses within a set time period and use at least a certain percentage of the loan towards payroll expenses.

In April 2020, the Chief of the Fraud Section of DOJ's Criminal Division invited us to join a multiagency effort to investigate allegations of CARES Act-related fraud. Recognizing that PPP loans were sought and obtained from FHLBank member banks and were pledged as collateral to the FHLBank by member banks, we understood the nexus between this multiagency effort and our mission, and we joined this effort. The goal of these investigations is to move quickly to preserve PPP assets and deter future criminal conduct through the publication of such enforcement efforts. This initiative contemplated that Fraud Section attorneys would lead criminal investigations conducted by multiagency teams and, when charges were brought, work with the Office of the U.S. Attorney in the appropriate judicial district to prosecute the offenders.

As a result of our efforts and those of our partner law enforcement agencies, eleven individuals have been charged by indictment or complaint with stealing or attempting to steal \$69.5 million in PPP funds during this reporting period. We continue to work with the Fraud Section of DOJ's Criminal Division and our partner federal law enforcement agencies to investigate allegations

FHFA-OIG Impact on PPP Fraud

FHFA-OIG opened its first investigation into alleged PPP fraud on April 30, 2020. Twelve days later, on May 12, 2020, a criminal complaint charging an individual in Texas with making two fraudulent PPP loan applications totaling \$13 million was unsealed.

of PPP fraud with a nexus to our statutory mission. During this reporting period, we issued a management advisory to provide a status report on these investigations. (See OIG, [*Management Advisory: FHFA-OIG's Investigation of Allegations of Fraud Affecting Paycheck Protection Program Loans Obtained or Sought from Federal Home Loan Bank Member Institutions*](#) (OIG-2020-005, September 8, 2020)).

Project Manager Pled Guilty in Connection with COVID Relief Fraud, Oklahoma

On August 6, 2020, Benjamin Hayford pled guilty in the Northern District of Oklahoma to bank fraud and making false statements to a financial institution for filing fraudulent bank loan applications seeking more than \$8 million in forgivable PPP loans.

As part of his guilty plea, Hayford admitted that he sought millions of dollars in forgivable PPP loans from multiple banks by claiming fictitious payroll expenses. To support his applications, Hayford provided lenders with fraudulent payroll documentation purporting to establish payroll expenses that were, in fact, nonexistent. In addition, Hayford admitted to making false representations to a financial institution concerning the date on which a limited liability partnership for which he applied for relief was established.

A member bank of the FHLBank of Topeka was a target of one of the alleged fraudulent applications.

Business Owner Charged with Fraudulently Obtaining More Than \$8 Million in COVID Relief Loans, Using Some of the Proceeds for Gambling and Stock Trading Activities, California

On July 28, 2020, Andrew Marnell was charged by indictment in the Central District of California with bank fraud. Marnell was alleged to have fraudulently obtained millions of dollars in forgivable PPP loans, some of which he used on gambling excursions and stock trading accounts. According to court documents, Marnell allegedly:

- obtained more than \$8 million in PPP forgivable loans through applications to insured financial institutions, and others, on behalf of different companies;
- submitted fraudulent loan applications containing numerous false and misleading statements about the companies' business operations and payroll expenses; and
- submitted false and altered documents using aliases, including fictitious federal tax filings and employee payroll records.

Court documents further assert that Marnell transferred millions of dollars from the fraudulently obtained loan proceeds to his brokerage accounts, and spent hundreds of thousands of dollars in fraudulently obtained loan proceeds at gambling establishments in Las Vegas, Nevada. Member banks of the FHLBank of Dallas were targets of the alleged fraudulent applications.

The alleged fraud charged here is common to other PPP schemes. In many instances, PPP applications contained false and/or misleading statements and documentation; the PPP loans were approved; and the loan proceeds were used by the borrower for their personal gain rather than to meet payrolls and pay rent, utilities, and mortgages.

Entrepreneur Charged with Fraudulently Obtaining COVID Relief Loans and Using Proceeds on Lavish Purchases, Including a Lamborghini, Texas

On August 3, 2020, Lee Price III was charged by federal criminal complaint in the Southern District of Texas for his role in fraudulently obtaining more than \$1.6 million in forgivable PPP loans. Price was charged with making false statements to a financial institution, wire fraud, bank fraud, and engaging in unlawful monetary transactions.

The complaint alleged that Price was involved in a scheme to submit multiple fraudulent PPP loan applications to federally insured banks and other lenders. Two allegedly fraudulent applications resulted in Price receiving the funds for which he applied: Price Enterprise Holdings allegedly received more than \$900,000, and 713 Construction was approved for over \$700,000. The loan applications allegedly declared both entities each had numerous employees and significant payroll expenses. However, the complaint asserted that neither entity had employees nor paid wages consistent with the amounts claimed in the loan applications. Further, the individual listed as CEO on the 713 Construction loan application died in April 2020, a month before the application concerning it was submitted.

As alleged in the complaint, Price allegedly used the loan proceeds for lavish personal purchases, such as a Lamborghini Urus, a Rolex watch, and real estate, but not for payroll expenses, and allegedly spent thousands at strip clubs and other night clubs. Price also allegedly used a portion of the loan money to buy a 2020 Ford F-350 pickup truck.

Member banks of multiple FHLBanks (Des Moines, Boston, Topeka and Pittsburgh) were targets of the alleged fraudulent applications.

Tech Executive Charged with COVID Relief Fraud and Money Laundering, Washington

On July 21, 2020, Mukund Mohan was charged by federal criminal complaint with wire fraud and money laundering in the Western District of Washington. The complaint alleged he fraudulently sought over \$5.5 million in forgivable PPP loans and then laundered some of the proceeds.

According to the complaint, Mohan allegedly submitted at least eight fraudulent PPP loan applications to federally insured financial institutions on behalf of six different companies. The complaint alleged that, in support of the fraudulent loan applications, Mohan made numerous false and misleading statements about the companies' respective business operations and payroll expenses.

Additionally, the complaint alleged that Mohan submitted false and altered documents, including fabricated federal tax filings and altered incorporation documents. For example, Mohan

purportedly misrepresented to a lender that, in 2019, his company Mahenjo Inc., had dozens of employees and paid millions of dollars in employee wages and payroll taxes. In support of Mahenjo's loan application, Mohan submitted incorporation documents showing that he incorporated the company in 2018 and filed federal unemployment tax forms for 2019. However, the complaint alleged that Mohan purchased Mahenjo on the Internet in May 2020 and, at the time he purchased the company, it had no employees and no business activity. The complaint averred that the incorporation documents submitted to the lender were altered and the federal tax filings he submitted were fictitious.

Moreover, Mohan allegedly transferred hundreds of thousands of fraudulently obtained loan proceeds to his personal brokerage account for personal benefit.

Member banks of the FHLBank of San Francisco were targets of some of the alleged fraudulent applications.

Funeral Director Charged with COVID Relief Fraud, Texas

On June 22, 2020, Jase Gautreaux was charged by federal criminal complaint for fraudulently seeking over \$13 million in PPP loans. Gautreaux was charged with false statements to a financial institution, wire fraud, bank fraud, and engaging in unlawful monetary transactions.

The complaint alleged Gautreaux submitted several fraudulent PPP loan applications to federally insured banks, including applications on behalf of a business that did not exist and other applications on behalf of a business with which he had no affiliation. In these applications, Gautreaux allegedly falsified his identity, misrepresented the number of employees and payroll expenses of the putative companies, and made numerous other inaccurate statements. According to the complaint, Gautreaux also submitted falsified tax documents and bank account information in support of these applications. According to charging documents, he ultimately received over \$1.6 million in PPP funds.

A member bank of FHLBank of Des Moines was a target of one of the alleged fraudulent applications.

Engineer Fraudulently Sought More than \$10 Million in COVID Relief Loans, Texas

On May 12, 2020, an engineer was charged in the Eastern District of Texas with allegedly filing fraudulent bank loan applications seeking more than \$10 million in forgivable PPP loans. Shashank Rai was charged by federal criminal complaint with wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA.

According to the criminal complaint, Rai allegedly made two fraudulent claims to two different lenders to secure loans through the PPP. In an application submitted to Allegiance Bank, Rai allegedly sought \$10 million in PPP loan proceeds by fraudulently claiming to have 250 employees with an average monthly payroll of \$4 million. In the second application submitted

to Ready Capital, Rai allegedly sought approximately \$3 million in PPP loan proceeds by fraudulently claiming to have 250 employees with an average monthly payroll of approximately \$1.2 million. However, the complaint alleges that the Texas Workforce Commission had no records of employee wages having been paid in 2020 by Rai or his purported business, Rai Family LLC; and that the Texas Comptroller's Office of Public Accounts reported that Rai Family LLC reported no revenues for the fourth quarter of 2019 or the first quarter of 2020. Materials were also recovered from the trash outside of Rai's residence including handwritten notes that appear to reflect an investment strategy for \$3 million, the amount Rai allegedly sought from the second lender.

Allegiance Bank, a member bank of the FHLBank of Dallas, was a target of one of the alleged fraudulent applications.

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

Mortgage Fraud Investigations

Specialized knowledge of the mortgage industry is a prerequisite to conducting effective and efficient investigations of mortgage fraud and to provide support to prosecutors and fact-finders. The time and effort required to investigate an allegation of mortgage fraud depends upon the particular scheme by which it is perpetrated.

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

Six Individuals Charged in the Investigation into the Failure of a Chicago Bank, Illinois

On August 27, 2020, two attorneys and four former bank employees were charged by indictment in the Northern District of Illinois in an investigation into the failure of Washington Federal Bank for Savings. Washington Federal Bank for Savings was shut down in December 2017 after the Office of the Comptroller of the Currency (OCC) determined that the bank was insolvent and had at least \$66 million in nonperforming loans. Washington Federal Bank for Savings was a member bank of the FHLBank of Chicago.

Attorney Robert Kowalski was charged with conspiracy to commit embezzlement and falsify bank records, failing to file income tax returns, and filing false personal and corporate returns. Rosallie Corvite, former Chief Financial Officer and Treasurer; Jane Iriondo (formerly known as Jane Tran), former Corporate Secretary; Alicia Mandujano, former loan servicer; and Cathy Torres, former loan officer; were charged with conspiracy to commit embezzlement and falsify bank records and falsifying bank records.

The indictment alleged that bank employees conspired with Robert Kowalski and higher-ranking bank officials to embezzle at least \$29 million in bank funds in the years preceding the closure. The employees and higher-ranking bank officials allegedly transferred the money to Robert Kowalski and others, often without any documentation, and falsified bank records to conceal the embezzlement. Additionally, Jane Iriondo and others allegedly provided false loan lists with false borrower identities and payment histories to the FHLBank of Chicago for the purpose of pledging collateral for financing from the FHLBank.

Former President of First Mortgage Company Charged with Financial Fraud, Oklahoma

On June 3, 2020, Ronald McCord was indicted in the Western District of Oklahoma for allegedly defrauding two FHLBank member banks, Fannie Mae, and others. The charges included bank fraud, money laundering, and making a false statement to a financial institution.

McCord was the former President of First Mortgage Company, LLC, an Oklahoma City-based mortgage lending and loan servicing company. McCord was charged for allegedly defrauding two FHLBank member banks and their respective residential mortgage subsidiaries, Spirit Bank/American Southwest Mortgage Corporation and Citizens State Bank/American Southwest Mortgage Funding Corporation (Spirit and Citizens). According to the indictment, McCord allegedly defrauded Spirit and Citizens by misusing lines of credit, including to obtain mortgages, many of which were then sold to Fannie Mae.

According to the indictment, McCord allegedly defrauded Fannie Mae by diverting escrow monies intended to pay homeowners' taxes, insurance, principal, and interest, to cover First Mortgage's operating expenses. As a result, First Mortgage allegedly lacked sufficient funds to pay borrowers' real estate tax payments. McCord also allegedly used the diverted escrow monies to write himself checks, pay more than half the purchase price of his son's nearly \$1 million home, and build a custom vacation home in Colorado.

Former Bank Executive Sentenced in Embezzlement Fraud Scheme, Tennessee

On July 22, 2020, former bank executive Connie Clabo was sentenced to 15 months in prison, four years of supervised release, and ordered to pay \$516,630 in restitution for her role in an embezzlement fraud scheme. In November 2019, Clabo pled guilty in the Eastern District of Tennessee to charges of theft, embezzlement, and willful misapplication of moneys, funds, and credits of a bank the deposits of which are insured by the FDIC and willfully filing a false federal income tax return for her participation in this scheme.

According to court documents, Clabo was the Vice President of Loan Operations at SmartBank responsible for overseeing the accurate entry of financial transactions into the bank's general ledger system. Clabo admitted to abusing her position with SmartBank to embezzle more than \$600,000. To do this, Clabo manipulated SmartBank's general ledger to fund 60 cashier's checks that were then deposited into either Clabo's personal bank account or to third parties to

whom she owed money. Additionally, Clabo manipulated SmartBank's general ledger system to fraudulently reduce her parents' home mortgage loan by \$46,000 to under \$400. Similarly, Clabo manipulated SmartBank's general ledger system to fraudulently pay off her own SmartBank home mortgage loan amount of over \$200,000.

SmartBank, Clabo's employer and the victim bank, is a member bank of the FHLBank of Cincinnati.

Title Company Owner Sentenced for Selling Fictitious Title Insurance Policies, North Carolina

On July 16, 2020, Ginger Cunningham was sentenced in the Western District of North Carolina to 14 months in prison, three years of supervised release, and ordered to pay \$412,344 in restitution for selling fictitious title insurance policies. Cunningham previously pled guilty to wire fraud.

According to court documents, Cunningham owned and operated Blue Ridge Title Company (Blue Ridge), and was an authorized agent for Commonwealth Land Title Insurance Company (Commonwealth). As an authorized agent, Cunningham's title agency sold title insurance policies **underwritten** by Commonwealth and collected premium payments during real estate closings.

Commonwealth terminated its agreement with Blue Ridge because Cunningham failed to submit required premium payments; however, Cunningham continued to represent herself and Blue Ridge as an agent of Commonwealth and to sell title insurance policies and collect premium payments. She also drafted fictitious policy documents in the name of Commonwealth Land Title Insurance Company and invented policy numbers. Cunningham sold at least 973 counterfeit title insurance policies and retained at least \$412,344 in premiums collected for the fraudulent policies. Numerous loans with fictitious title policies were purchased by the Enterprises.

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.

Former Loan Officer Admits Role in Mortgage Fraud Scheme, New Jersey

On June 16, 2020, Blanca Medina, a former loan officer, was charged by information and pled guilty to conspiracy to commit bank fraud in the District of New Jersey for her role in a scheme to defraud a financial institution of hundreds of thousands of dollars.

According to court documents and statements made in court, Medina conspired with others to fraudulently obtain mortgage loans from “Mortgage Lender A” to finance the purchase of properties by unqualified buyers. Medina, a former loan officer for Mortgage Lender A, admitted to participating in a conspiracy in which she knowingly caused completed mortgage loan applications that contained multiple misrepresentations of material facts regarding the buyers’ assets and income to be submitted to Mortgage Lender A. A co-conspirator provided Medina with false and fraudulent documents for potential borrowers including false and fraudulent lease agreements, bank statements, and a gift check and gift letter. Based on this false documentation, Mortgage Lender A issued mortgage loans to unqualified buyers, which caused Mortgage Lender A hundreds of thousands of dollars in losses. The Enterprises have exposure in several loans because of this scheme.

Multi-Year Prison Sentences in Loan Origination Scheme, Illinois

In September 2020, Amber Cook and Irma Holloway were sentenced to prison for their roles in a loan origination scheme.

As previously reported, Holloway operated a construction company. Cook was a loan processor. Holloway conspired with Cook and other bank insiders to defraud lenders by obtaining mortgage loans using materially false information. Holloway recruited **straw buyers** to purchase properties using fraudulent documentation, including fictitious verifications of deposit and documents concerning the buyers’ income and assets. Once the loans closed, Holloway derived a financial benefit and provided kickback payments to the straw buyers, which were not disclosed to the lenders. The Enterprises, as investors in these loans, suffered losses.

Cook was sentenced to 48 months in prison, five years of supervised release and was ordered to pay over \$4.7 million in restitution, jointly and severally. Holloway was sentenced to 24 months in prison, five years of supervised release, and was ordered to pay over \$3.69 million in restitution, jointly and severally.

Twelve Charged and One Guilty Plea in Multi-Year Mortgage Fraud Scheme, Georgia

In September 2020, twelve co-conspirators were charged in the Northern District of Georgia in a mortgage fraud scheme allegedly spanning more than four years and resulting in the approval of more than 100 mortgages based on fabricated documents and false information, with one of the co-conspirators pleading guilty for his role in this scheme. The Enterprises were investors for some of these loans.

According to the charging documents:

- the co-conspirators allegedly participated in a scheme in which homebuyers and real estate agents submitted fraudulent loan applications to induce mortgage lenders to fund mortgages;

- two listing agents, representing a major nationwide homebuilder, allegedly assisted more than 100 homebuyers who were unqualified to obtain a mortgage to submit falsified mortgage applications; and
- these listing agents allegedly worked with bank officials to wrongfully alter the homebuyers' bank statements to inflate their assets and to create false bank entries for non-existent direct deposits and to generate fictitious earnings statements to match the fictitious direct deposit entries.

In another aspect of the scheme, two real estate agents allegedly falsely claimed to represent homebuyers as their selling agents in order to receive commissions from the home sales, although these agents never even met the homebuyers they claimed to represent. These real estate agents purportedly kicked back the majority of their commissions to co-conspirators.

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.

Loan Officer and Real Estate Developer Sentenced for Conspiracy to Make False Statements to Banks, Florida

In June 2020, Jonathan Marmol was sentenced in the Middle District of Florida to 15 months in prison and Mordechai Boaziz was sentenced to 90 days in prison for conspiracy to make false statements to financial institutions. Both defendants were additionally sentenced to three years of supervised release and ordered to pay restitution of \$317,303 and over \$5.3 million, jointly and severally. Boaziz and Marmol had pled guilty to the offenses in November 2019.

As previously reported, Boaziz and Marmol conspired with others to execute a scheme to attract unqualified buyers to purchase condominium units in a development being converted from an apartment complex into a condominium complex. The defendants offered to pay the prospective buyers' down payments ("cash-to-close") and then intentionally concealed the cash-to-close payments from the financial institutions that originated and funded the related mortgage loans and misrepresented that the buyers brought their own cash-to-close funds to purchase the units. In reality, Boaziz funded the buyers' cash-to-close payments and routed them through Marmol and others. Boaziz caused approximately \$5.36 million in losses, and Marmol caused approximately \$330,000 in losses to the lenders and the Enterprises who purchased the loans.

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.

Six Family Members Pled Guilty in Short Sale Fraud Scheme, Florida

Six family members pled guilty in August 2020 in connection with their roles in a short sale fraud scheme.

Ana Cummings, along with her children, Diana Pazmino-Robinson, Grace Pazmino, Valentin Pazmino, Rene Pazmino, and her son-in-law Jared Marble all pled guilty in the Southern District of Florida to conspiracy to commit bank fraud.

According to court documents, the alleged fraud involved ten fraudulent short sale transactions (including multiple Fannie Mae and Freddie Mac properties) in which the co-conspirators made materially false statements to financial institutions in order to facilitate short sale approvals. Specifically, the co-conspirators executed short sale affidavits and affidavits of arm’s length transactions falsely attesting that the sales were between unrelated, unaffiliated parties. In reality, the sales were between and among the co-conspirators, entities controlled by the co-conspirators, and/or individuals recruited by a co-conspirator to participate in the fraud scheme. Members of the conspiracy also executed settlement statements misrepresenting that the named buyer made the required cash-to-close payment. Financial institutions relied on these material representations to authorize property sales for amounts less than the outstanding principal balances due on mortgages held on the properties. The Enterprises, as investors in these loans, suffered losses.

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.

Former Attorney Charged with Conspiracy and Bankruptcy Fraud in Scheme to Defraud Mortgage Creditors and Homeowners, Florida

An unsealed indictment in the Middle District of Florida in May 2020 charged James Clark with conspiracy to commit bankruptcy fraud, bankruptcy fraud, making a falsification of records in a bankruptcy proceeding, and wire fraud.

According to the indictment, Clark allegedly conspired with his paralegal, Eric Liebman, to defraud mortgage creditors and guarantors, such as Fannie Mae, which were holding mortgage notes on properties that were in foreclosure.

The indictment further charged that Clark and Liebman allegedly falsely and fraudulently represented to the distressed homeowners facing foreclosure that, in exchange for executing quitclaim or warranty deeds for their properties to an entity controlled by Liebman, they would negotiate with the mortgage creditors to prevent foreclosures. Clark and Liebman allegedly convinced the distressed homeowners to pay them rent or agree to put their houses up for sale. In order to continue to collect ill-gotten rents, or profit from the sale of the properties, Clark allegedly filed fraudulent bankruptcy petitions in the names of the homeowners to prevent the mortgage creditors from lawfully foreclosing and taking title to the property. In some instances, Clark allegedly filed multiple fraudulent petitions in the names of distressed homeowners.

Additionally, it was further alleged that, Clark, who was a licensed attorney, defrauded his clients out of approximately \$1.3 million. As part of his practice, Clark would act as a trustee for his clients and also hold their money in various bank accounts depending on the purpose of trust. Instead of using the funds for the purpose intended by his clients, Clark would allegedly divert the money into his law firm's bank accounts and pay for personal expenses, such as gambling, travel, and automobiles. Fannie Mae suffered losses as a result of the scheme.

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.

Managing Partner of a Realty Company Charged with Wire Fraud and Bank Fraud in a Multistate Multifamily Fraud Scheme, Missouri

On August 20, 2020, Michael Fein was charged with wire fraud and bank fraud in the Eastern District of Missouri. According to the indictment, Fein was an owner and vice president of T.E.H. Management and an owner and manager of a number of T.E.H.-affiliated companies which owned and operated multifamily apartment complexes throughout the United States. The alleged fraud related to multifamily mortgage loans made to T.E.H. Realty connected to the purchase and refinance of various multifamily apartment complexes.

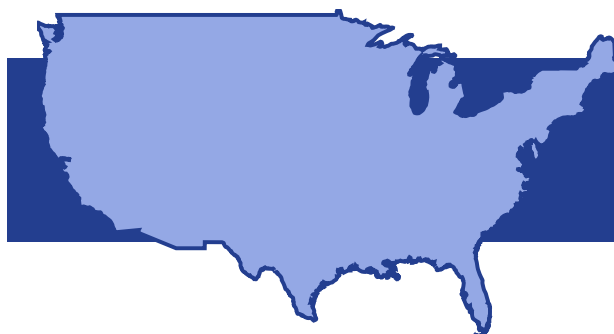
Among other things, the indictment alleged that Fein, on behalf of a T.E.H.-affiliated company, applied for and obtained a \$12.5 million refinance loan from a financial institution and Fannie Mae to refinance the outstanding loan on another apartment complex in Missouri. In order to obtain the refinance loan, Fein allegedly submitted false documents to the lender and Fannie Mae, including inflated rent rolls which falsely inflated the occupancy rates of the property and false operating statements which inflated the rental income of the property.

Furthermore, according to the indictment, Fein, on behalf of a T.E.H.-affiliated company, applied for and obtained a \$7.7 million refinance loan from a financial institution and Freddie Mac to refinance the outstanding loan on an apartment complex in Oklahoma. In order to obtain the refinance loan, Fein allegedly submitted false documents to the lender and Freddie Mac including inflated rent rolls which falsely inflated the occupancy rates and false operating statements which inflated the total property income.

Law Enforcement Outreach

OIG develops public-private partnerships where appropriate. During this reporting period, OIG delivered 14 fraud awareness briefings to diverse audiences to raise awareness of its law enforcement mission and of fraud schemes targeting FHFA programs.

OIG has developed ongoing and close working relationships with other law enforcement agencies, including DOJ and U.S. Attorneys' offices; FBI; HUD-OIG; FDIC-OIG; IRS-CI; SBA-OIG; the U.S. Trustee Program (nationwide); FinCEN; state attorneys general; mortgage fraud working group; and other federal, state, and local law enforcement agencies nationwide. OI also works closely with Fannie Mae and Freddie Mac to combat fraud.



Local and State Agencies Partnering with FHFA-OIG

April 1 through September 30, 2020

CALIFORNIA

California Attorney General's Office
California Department of Insurance
California Department of Justice
Los Angeles County District Attorney's Office
Los Angeles County Recorder's Office
Los Angeles County Sheriff's Department
Los Angeles Police Department
Orange County District Attorney's Office
Orange County Recorder's Office
Riverside County District Attorney's Office
San Diego County Recorder's Office
Stanislaus County District Attorney's Office
Ventura County District Attorney's
Bureau of Investigation

FLORIDA

Florida Attorney General Statewide
Prosecution Office
Florida Department of Law Enforcement
Florida Office of Financial Regulation
Hillsborough County Sheriff's Office
Miami-Dade Police Department

GEORGIA

Georgia Bureau of Investigation

ILLINOIS

Chicago Housing Authority Inspector General
City of Chicago Inspector General

MICHIGAN

Wayne County Mortgage and Deed Fraud Unit
Wayne County Sheriff's Office

NEVADA

Nevada Attorney General's Office

NEW JERSEY

Bergen County Prosecutor's Office

NORTH CAROLINA

North Carolina Department of Insurance

OKLAHOMA

Craig County Sheriff's Office

TEXAS

Cedar Hill Police Department
Dallas District Attorney's Office
El Paso County District Attorney's Office
Houston Police Department
Texas Appraiser Licensing and Certification
Board
Texas Comptroller's Office of Public Accounts
Texas Workforce Commission

UTAH

Utah State Bureau of Investigation

WASHINGTON

King County District Attorney's Office

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 20 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.”

During this reporting period, OIG made 11 referrals of counterparties to FHFA for consideration of potential suspension under its Suspended Counterparty Program and additional suspension/debarment referrals to other agencies, summarized below.

Administrative Actions April 1, 2020 – September 30, 2020	
Suspension/Debarment Referrals to Other Agencies	20
Suspended Counterparty Referrals to FHFA	11

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 at the conclusion of these assessments.

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 2008 financial crisis showed 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, OIG provided information to and discussed OIG work with congressional staff as requested.

Hotline

The OIG hotline serves as a vehicle through which employees of the Agency, the Enterprises, and FHLBanks and members of the public can report suspected fraud, waste, abuse, mismanagement, or misconduct in Agency programs and operations. Potential criminal violations are investigated by OI, and civil or administrative matters are referred to the appropriate senior career executive

in an OIG operating division for investigation. During this reporting period, 569 discrete contacts to the hotline were made involving tips, complaints, and referrals (TCRs), and 95 separate TCRs were logged by the hotline.

For more information about OIG's hotline, including OIG contact information, see <https://www.fhfaoig.gov/ReportFraud>.

Close Coordination with Other Oversight Organizations

During the reporting period, OIG maintained active participation in coordinated oversight activities involving the following organizations:

FBI Cybercrimes Task Force

The FBI's Washington, D.C., field office spearheads a cybercrimes task force, and OIG assigns special agents to assist with task force law enforcement activities. This multiagency task force focuses on investigating cybercrimes. OIG makes these assignments to help combat such crimes and to work in partnership with multiple federal agencies. This concerted effort helps 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, including the Audit Committee, the Inspection and Evaluation Committee, and the Investigations 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 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 statutory 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. Additionally, in accordance with the act, CIGFO issues an annual report to FSOC and to Congress that includes 1) a section by each member IG that highlights the concerns and recommendation of the IG based on ongoing and completed work, with a focus on issues that may apply to the broader financial section; and 2) a summary of the general observations by the Council with a focus on measures that should be taken to improve financial oversight. CIGFO's annual report for 2020, issued in July, is available on its [website](#) and [Oversight.gov](#).

Public-Private 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 Enterprises and the FHLBanks to benefit from their insights. We also make presentations to academic and industry groups. Recent presentations include: the Palm Beach County (FL) Economic Crimes/Intelligence Working Group the BSA/M & T Bank (MD) Task Force; High Intensity Drug Trafficking Areas (HIDTA)/ International Association of Financial Crimes Investigators (IACFI) South Florida Intelligence Working Group; Walmart Global Investigations; and Truist Special Investigations Unit.

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 is a table directing the reader to the pages of this report on which various information required by the Inspector General Act, as amended, is provided.

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.	10-16, 20-33
Section 5(a)(2) – A description of the recommendations for corrective action made by OIG with respect to significant problems, abuses, or deficiencies.	20-33, 61-96
Section 5(a)(3) – An identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.	61-96
Section 5(a)(4) – A summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	34-49, 97-113
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.	N/A
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.	20-33, 56
Section 5(a)(7) – A summary of each particularly significant report.	17-18, 20-33

Source/Requirement	Pages
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, 56
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, 56
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.	56
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.	56
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.	61-96
Section 5(a)(11) – A description and explanation of the reasons for any significant revised management decision made during the reporting period.	56
Section 5(a)(12) – Information concerning any significant management decision with which the Inspector General is in disagreement.	57
Section 5(a)(13) – The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.	57
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.	57-58
Section 5(a)(15) – A list of any outstanding recommendations from any peer review conducted by another IG that have not been fully implemented.	57-58
Section 5(a)(16) – A list of any peer reviews of another IG during the reporting period.	57-58

Source/Requirement	Pages
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.	35
Section 5(a)(18) – A description of the metrics used for developing the data for the statistical tables under paragraph (17).	35
Section 5(a)(19) – A report on each investigation conducted by OIG involving a senior Government employee where allegations of misconduct were substantiated, including the name of the official if already made public by OIG, a detailed description of the facts and circumstances of the investigation, and the status and disposition of the matter.	58-59
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.	58-59
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.	58-59

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 issuing 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 period, OIG issued no reports that included recommendations with questioned costs, unsupported costs, or funds to be put to better use by management.

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 reports issued before April 1, 2020, 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 reports issued before April 1, 2020, 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, 2020, 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, 2020, there were no significant management decisions by FHFA with which the Inspector General disagreed.

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, 2020, this reporting provision did not apply to the Agency or OIG.

HERA requires GAO to audit FHFA financial statements. In its *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2019 and 2018 Financial Statements* report, GAO did not identify any deficiencies in FHFA's internal controls over financial reporting that it considered to be material weaknesses or significant deficiencies. GAO also reported that its test for compliance with selected 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 audit organization was conducted by the Library of Congress OIG and reported on September 11, 2019. OIG received an external peer review rating of pass, the highest rating an audit organization can receive.

The most recent peer review of our OE and OCom functions was conducted by a CIGIE external peer review team led by HUD-OIG, and reported on September 10, 2019. The review team recognized several of our practices as "best practices." The team also determined that our policies and procedures met the seven standards addressed in that review: quality control,

planning, data collection and analysis, evidence, records maintenance, reporting, and followup. The team concluded that the six reports it tested met the standards, but one evaluation report did not comply with internal policies and procedures for planning. No recommendations were issued.

The most recent peer review of our investigative function was conducted by the United States Nuclear Regulatory Commission (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, 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.

Copies of our peer review reports are on OIG's website under [Current Peer Review Reports](#).

During this semiannual reporting period, our OA function reviewed the system of quality control for the audit organization of the Smithsonian Institution OIG in effect for the year ended March 31, 2020, and issued a System Review Report to the Smithsonian Institution Inspector General on September 22, 2020. No recommendations were issued.

Additionally, during this reporting period, our OE function, along with the Department of Defense OIG, participated in an external peer review of the Tennessee Valley Authority OIG that was led by the Department of Labor OIG. No recommendations were issued.

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 several OIG administrative inquiries.

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 and closed an investigation into allegations that an FHFA SGE was conducting unofficial business activities during official duty hours. Following an investigation, which included interviews and a review of the employee's shared network drive, the employee admitted conducting unofficial business using Agency equipment, as well as failing

both to seek authorization for outside employment and to report the business on annual financial disclosure forms. The matter was referred to FHFA for resolution.

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 conducted a preliminary inquiry into an allegation that an FHFA SGE improperly pressured examiners to make a specific finding for an examination. OIG did not find evidence sufficient to support the allegation and the matter was closed.

During this reporting period, OIG completed an investigation into claims that a former FHFA contract employee was subjected to retaliation for allegedly making a protected disclosure. Pursuant to 41 U.S.C. § 4712, OIG issued a report of investigatory findings to FHFA for final determination.

Also, during this reporting period, OIG conducted an administrative inquiry into anonymous allegations that a CSS officer violated CSS procurement and time and expenses policies, two other CSS officers violated the procurement policy, and a fourth CSS officer engaged in wasteful spending. We confirmed that one officer exceeded his/her approval authority in one instance but found that CSS internal controls had detected the procurement policy breach and appropriate approval was subsequently obtained and documented. We did not have sufficient evidence to substantiate the other allegations and the matter was closed.

In addition, during this reporting period, OIG completed an investigation of a hotline complaint from a former employee of an OIG contractor. The Complainant alleged reprisal for disclosing purported misconduct by contractor employees to a senior executive for the contractor, in violation of 41 U.S.C. § 4712. In accordance with statutory obligations, OIG thoroughly investigated the allegations. We determined the record was insufficient to establish that the Complainant made a protected disclosure. Accordingly, we found inadequate evidence to substantiate the claim of reprisal. (See OIG, [*Summary of Administrative Inquiry: The Office of Inspector General's Investigation into Whistleblower Reprisal Allegations Made by a Former Employee of a Contractor*](#), (OIG-2020-006, September 30, 2020)).

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)—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.

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 475 recommendations. Table I (see page 62) summarizes OIG's outstanding unimplemented recommendations. Table II (see page 63) lists OIG's outstanding unimplemented open recommendations, organized by risk area. Table III (see page 84) 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.

Table I¹

Summary of OIG Outstanding Unimplemented Recommendations From OIG Oversight Reports

Fiscal Year	Number of Unimplemented Recommendations	Total No. of Reports with Unimplemented Recommendations ²	Dollar Value of Aggregate Potential Cost Savings
2013	0 open recommendations	1	\$-0-
	1 closed, rejected recommendation		\$-0-
2014	2 open recommendations	7	\$-0-
	8 closed, rejected recommendations		\$5,015,505
2015	1 open recommendation	2	\$-0-
	1 closed, rejected recommendation		\$-0-
2016	6 open recommendations	11	\$-0-
	13 closed, rejected recommendations		\$48,229,370
2017	3 open recommendations	4	\$-0-
	2 closed, rejected recommendations		\$56,200,000
2018	2 open recommendations	5	\$-0-
	5 closed, rejected recommendations		\$784,000,000 ³
2019	11 open recommendations	9	\$-0-
	4 closed, rejected recommendations		\$-0-
2020	31 open recommendations	14	\$-0-
	4 closed, rejected recommendations		\$80,985
TOTAL	56 open recommendations	53	\$-0-
	38 closed, rejected recommendations		\$893,525,860

¹ 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. This figure includes potential cost savings to the Agency or the Enterprises from specific recommendations, i.e., recommendations of potential funds to be put to better use by management, questioned costs, and other monetary calculations in all OIG oversight reports supporting OIG recommendations and conclusions.

² A recommendation from AUD-2016-007 is repeated in AUD-2016-006, and a recommendation in AUD-2017-010 also appears in AUD-2017-011. Also, AUD-2020-004 reaffirmed two recommendations made in EVL-2014-002. Each recommendation is only counted once; the reports are counted separately.

³ Of this amount, \$776,300,000 relates to FHFA management's rejection of our recommendations in OIG, [Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce](#) (OIG-2018-004, September 6, 2018). As reported in the FHFA-OIG Semiannual Report to the Congress for the 6-months ended September 30, 2018, the Inspector General disagreed with management's decision on these recommendations. The remaining \$7.7 million relates to FHFA's mismanagement of its Housing Finance Examiner program (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)).

Table II

Summary of OIG Open Recommendations

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Conservatorship: Delegated Responsibilities			
Conflicts of Interest	FHFA should direct FHFA employees to monitor the review and resolution of Senior Executive Officer 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.	Improved oversight	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) ⁴
	FHFA, as conservator, should direct Freddie Mac to revise its policies and procedures to align with the responsibilities assigned to the Nominating and Governance Committee and facilitate the Nominating and Governance Committee's execution of its responsibilities. [Closed in July 2018; reopened upon results of compliance testing.]	Improved oversight	Management Alert: Need for Increased Oversight by FHFA, as Conservator, to Ensure that Freddie Mac's Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee of the Freddie Mac Board of Directors (OIG-2017-005, September 27, 2017) and Freddie Mac Management Failed to Adopt and Implement Conflicts of Interest Policies Which Aligned Fully with FHFA's Directive on Senior Executive Officers' Conflicts of Interest, and With the Charter for the Freddie Mac Board's Nominating and Governance Committee (COM-2020-006, August 26, 2020)

⁴ This recommendation is being held open pending the completion of a related 2020 FHFA planned supervisory activity, and OIG's assessment of that supervisory activity.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Supervision			
Examiner Capacity	FHFA should develop a process that links annual Enterprise examination plans with core team resource requirements.	Improved supervision	<u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u> (EVL-2014-002, December 19, 2013) and <u>Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac</u> (AUD-2020-004, February 25, 2020)
	FHFA should establish a strategy to ensure that the necessary resources are in place to ensure timely and effective Enterprise examination oversight.	Improved supervision	<u>Update on FHFA's Efforts to Strengthen its Capacity to Examine the Enterprises</u> (EVL-2014-002, December 19, 2013) and <u>Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac</u> (AUD-2020-004, February 25, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	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	<u>FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle</u> (AUD-2017-010, September 27, 2017)
	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	<u>FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed</u> (AUD-2016-007, September 30, 2016); and <u>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</u> (AUD-2016-006, September 30, 2016)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with Office of Personnel Management guidance and best practices and is fully documented in writing. That process should include:</p> <ul style="list-style-type: none"> Identifying the current examination skills and competencies of its examiners; Forecasting the optimal staffing levels and competencies needed to meet its supervisory needs; Evaluating whether a gap exists between skills that its workforce may currently need but does not possess; and Addressing that gap. 	Improved supervision	<p>Despite Prior Commitments, FHFA Has Not Implemented a Systematic Workforce Planning Process to Determine Whether Enough Qualified Examiners are Available to Assess the Safety and Soundness of Fannie Mae and Freddie Mac (AUD-2020-004, February 25, 2020)⁵</p>

⁵ In its management response to this audit, FHFA stated it would assess the report's recommendation and provide a response by June 30, 2020. On September 22, 2020, we reposted this report with an Addendum that provides FHFA's June 30, 2020, response and related communications. In summary, FHFA has planned an alternative approach that meets the intent of the recommendation. Implementation of this alternative approach may also address the open, unimplemented recommendations related to the sufficiency of DER's examiner workforce in EVL-2014-002, AUD-2016-006, AUD-2016-007, AUD-2017-010, and EVL-2020-001.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should direct DER to develop and implement a systematic workforce planning process within 12 months that aligns with Office of Personnel Management guidance and best practices and is fully documented. That process should include:</p> <ul style="list-style-type: none"> Identifying the appropriate number of Enterprise high-risk models to be examined each year through targeted examinations; Identifying the current examination skills and competencies of examiners engaged in supervisory activities of high-risk models; Forecasting the optimal staffing levels and competencies of examiners necessary to complete the identified number of targeted examinations of high-risk models planned for each examination cycle; Evaluating whether a gap exists between skills required to conduct supervision of high-risk models that its examiners currently need but do not possess; and Addressing that gap. 	Improved supervision	<u>Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely</u> (EVL-2020-001, March 25, 2020) ⁶

⁶ In its management response to this evaluation, FHFA stated it would assess the report's recommendations and provide a response by June 30, 2020. On September 22, 2020, we reposted this report with an Addendum that provides FHFA's June 30, 2020, response and related communications. In summary, FHFA has planned an alternative approach that is generally responsive to the recommendations.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	Based on the results of its workforce analysis, FHFA should conduct a written assessment of whether DER's current budget for its supervision of high-risk models is sufficient.	Improved supervision	Despite FHFA's Recognition of Significant Risks Associated with Fannie Mae's and Freddie Mac's High-Risk Models, its Examination of Those Models Over a Six Year Period Has Been Neither Rigorous nor Timely (EVL-2020-001, March 25, 2020) ⁷
Accreditation of Examiners	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 examinations.	Improved quality	OIG's Compliance Review of FHFA's Implementation of Its Housing Finance Examiner Commission Program (COM-2015-001, July 29, 2015), and 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) ⁸

⁷ See prior footnote.

⁸ OIG has twice determined that the Housing Finance Examiner Commission Program was not on track to produce commissioned examiners. This recommendation is open pending FHFA actions to assess and address the Program's shortfalls, and OIG's assessment of those corrective actions.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Risk Assessments for Supervisory Planning	<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> <ol style="list-style-type: none"> 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) 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) 	Improved supervision	<p>FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle (AUD-2017-010, September 27, 2017); and</p> <p>FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle (AUD-2017-011, September 27, 2017)</p>

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Communication of Deficiencies to Enterprise Boards	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 a matter requiring attention (MRA). (In COM-2018-005, OIG clarified that the recommendation covers “supervisory correspondence,” which includes conclusion letters and supervisory letters that set forth MRAs.) [Closed in November 2016; reopened upon results of compliance testing.]	Improved supervision	FHFA’s Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management’s Remediation Efforts are Inadequate (EVL-2016-005, March 31, 2016), and Compliance Review of FHFA’s Communication of Serious Deficiencies to the Enterprises’ Boards of Directors (COM-2018-005, September 5, 2018) ⁹
Assessing Remediation of Deficiencies	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].	Improved remediation of deficiencies	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 (AUD-2018-008, March 28, 2018) ¹⁰

⁹ OIG is in the process of testing FHFA’s implementation of corrective actions related to this recommendation.

¹⁰ This recommendation is being held open pending the completion of a 2020 FHFA planned supervisory activity related to the underlying deficiency of the MRA that was the subject of this report, and OIG’s assessment of that supervisory activity.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should require DER, upon acceptance of an Enterprise's remediation plan, to estimate the date by which it expects to confirm internal audit's validation, and to enter that date into a dedicated field in the MRA tracking system. [Closed in September 2017; reopened upon results of compliance testing.]	Improved remediation of deficiencies	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 (EVL-2016-007, July 14, 2016) and; Compliance Review of the Timeliness of FHFA's Assessments of the Enterprises' Remediation Closure Packages for a Matter Requiring Attention (COM-2020-001, February 21, 2020)
Supervisory Oversight	FHFA should determine the appropriate threshold or criteria for charging off delinquent single-family loans at the Enterprises and communicate that threshold or criteria through revised or new Agency guidance.	Improved supervision	More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations (EVL-2020-003, September 10, 2020)
	FHFA should assess the Enterprises' implementation of the revised or new Agency guidance to ensure that the Enterprises' practices comport with FHFA's supervisory expectations.	Improved supervision	More than Eight Years After Issuing its Advisory Bulletin, FHFA Has Not Held the Enterprises to its Expectations on Charging off Delinquent Loans or Communicated New Expectations (EVL-2020-003, September 10, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should ensure that the Office of Housing and Regulatory Policy (OHRP) (a) develops and issues written guidance to the Enterprises on the data elements to be reported regularly for FHFA's monitoring of the 97% LTV mortgage programs and (b) establishes quality control procedures to ensure that information reported by the Enterprises is reliable and conforms to the requirements of the written guidance.	Improved supervision	Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives (AUD-2020-014, September 29, 2020)
	FHFA should clarify and reinforce OHRP's guidance regarding the frequency of 97% LTV mortgage program monitoring dashboard preparation to OHRP staff and ensure that the monitoring dashboards are prepared and reviewed in accordance with that guidance.	Improved supervision	Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives (AUD-2020-014, September 29, 2020)
Examiner Assessment and Escalation of Shortcomings	FHFA should assess whether Fannie Mae's remediation of its [redacted] is sufficient.	Improved supervisory oversight	FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight (EVL-2020-002, August 27, 2020)
	FHFA should set clear expectations in supervisory guidance for prompt escalation within DER by examiners of information regarding deficient practices at an Enterprise for a determination of whether such practices warrant additional supervisory attention and/or should be the subject of an adverse examination finding.	Improved supervisory oversight	FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight (EVL-2020-002, August 27, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should reinforce in examiner training and the annual performance appraisal process its expectations for collaboration among examiners, communication of potential deficient practices to DER managers, and documentation of support for conclusions.	Improved supervisory oversight	FHFA Examiners' Lack of Assessment and Escalation of Shortcomings Identified by an Enterprise in its Servicer Fraud Risk Management Framework Limited the Agency's Supervisory Oversight (EVL-2020-002, August 27, 2020)
Examination Guidance	FHFA should establish and implement timelines and processes to ensure timely updates and revisions to DER's examination manual.	Improved supervision	Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance (EVL-2019-003, September 10, 2019)
	FHFA should establish and communicate clear expectations for use of revised and new examination modules by DER examiners.	Improved supervision	Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance (EVL-2019-003, September 10, 2019)
	FHFA should reinforce the requirement to examiners in charge and examination managers that changes to an examination plan must be risk-based – changes in Enterprise business operations or risk exposures – and that resource constraints are not accepted reasons for such changes.	Improved supervision	FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for 2019; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval (AUD-2020-011, September 9, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should reinforce the requirement that any revisions to an examination plan must be approved in writing by the Deputy Director.	Improved supervision	<u>FHFA Completed Most of its Planned Ongoing Monitoring Activities for Fannie Mae and CSS for 2019; However, FHFA Failed to Follow its Requirements When it Changed Examination Plans for Non-Risk-Based Reasons and Failed to Obtain Deputy Director Approval</u> (AUD-2020-011, September 9, 2020)
	FHFA should reinforce DBR's Minimum Frequency Guidelines, including requirements for documenting the justifications and approvals for exceptions to the Guidelines, to DBR's examination teams and Quality Control Branch staff.	Improved supervision	<u>DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings</u> (AUD-2020-010, September 3, 2020)
	FHFA should evaluate Quality Control Branch review practices and adjust, as needed, to ensure shortcomings in the documentation of exceptions to the Minimum Frequency Guidelines are detected.	Improved supervision	<u>DBR's Examinations during the 2017 through 2019 Examination Cycles Generally Complied with its Guidelines, but Some Exceptions to those Guidelines Were Not Documented and/or Approved, and DBR's Quality Control Branch Failed to Identify these Shortcomings</u> (AUD-2020-010, September 3, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Effective Cybersecurity Controls Examinations	FHFA should require examiners to document their assessment of the design of the Federal Home Loan Banks' vulnerability scans and penetration tests as part of their assessment of the operational effectiveness of such controls. [Closed in February 2017; reopened upon results of compliance testing.]	Improved examinations	FHFA Should Improve its Examinations of the Effectiveness of the Federal Home Loan Banks' Cyber Risk Management Programs by Including an Assessment of the Design of Critical Internal Controls (AUD-2016-001, February 29, 2016), and Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks (COM-2019-004, May 7, 2019)
Quality Control Reviews	FHFA's Office of Minority and Women Inclusion should ensure that quality control reviews are performed before issuing diversity and inclusion examination findings to a regulated entity, as required by Supervision Directive 2017-01.	Improved quality	Compliance Review of FHFA's Office of Minority and Women Inclusion (COM-2019-005, June 24, 2019)
Information Technology			
Information Technology Risk Examinations	FHFA should comply with Financial Stability Oversight Council (FSOC) recommendations to address the gaps, as prioritized, to reflect and incorporate appropriate elements of the National Institute of Standards and Technology (NIST) Framework.	Improved risk management	FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework (EVL-2016-003, March 28, 2016) ¹¹

¹¹ FHFA revised its supervisory guidance related to information security and risk management in March 2020. OIG is reviewing the revised guidance to assess whether FHFA has adequately addressed this recommendation.

Specific Risk to be Mitigated	Open 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	FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework (EVL-2016-003, March 28, 2016) ¹²
Privacy Information and Data Protection	FHFA should determine privacy controls that are information system-specific, and/or hybrid controls.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
	FHFA should document privacy controls within each system's system security plan or system-specific privacy plan, clearly identifying whether controls are program level, common, information system-specific, or hybrid.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
FHFA Information Technology Security and Availability	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019 (AUD-2020-001, October 25, 2019)
	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019 (AUD-2020-001, October 25, 2019)
	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019 (AUD-2020-001, October 25, 2019)

¹² See prior footnote.

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019 (AUD-2020-001, October 25, 2019)
	FHFA should ensure that outdated [redacted] and [redacted] protocols in FHFA's systems are disabled or upgraded in a timely manner in accordance with NIST directives.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)
	FHFA should restrict user access to [redacted] in accordance with the least privilege principle.	Improved information security	2019 Internal Penetration Test of FHFA's Network and Systems (AUD-2019-014, September 24, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	<p>FHFA should review, revise, and implement its procedures for disposal of electronic media targeted for destruction, consistent with NIST and Green Book requirements. Those revised procedures should:</p> <ul style="list-style-type: none"> • Prescribe the expectations for sanitization of the targeted electronic media consistent with NIST guidance; • Provide for tracking the targeted electronic media in an inventory system of record; • Provide for regular physical inventory of the targeted electronic media and reconciliation to the control record(s) through destruction; and • Provide for accountability of the targeted electronic media from the time the media is taken out of service through its destruction, with reconciliations of any count differences that may arise as the media is transferred within FHFA, and from FHFA to other parties used to destroy the media. 	Improved information security	FHFA Cannot Assure that All Electronic Media Approved for Destruction in October 2018 Was Destroyed, and it Continues to Lack Adequate Controls over Electronic Media Targeted for Disposal (AUD-2020-009, March 30, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should update its General Support System (GSS) Disaster Recovery Procedures to ensure the procedures include all NIST-required information and is in a ready state. In this regard, the procedures should provide time periods for the Recovery Time Objective and Recovery Point Objective for resumption of GSS operation; procedures used to test for the failover and failback of FHFA's Voice over Internet Protocol; lists of equipment needs, vendor names, and emergency contact information; current information on FHFA's alternate operating facility; and current information on individuals and titles listed under assigned roles and responsibilities.	Improved information technology availability	FHFA's 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information (AUD-2020-005, March 23, 2020)
	FHFA should maintain the GSS Disaster Recovery Procedures in a ready state going forward.	Improved information technology availability	FHFA's 2019 Disaster Recovery Exercise of its General Support System Was Conducted as Planned, But its Disaster Recovery Procedures Were Missing Certain Required Elements and Included Outdated Information (AUD-2020-005, March 23, 2020)
	FHFA should validate the implementation of minimum security requirements for all existing cloud-based GSS Tools and ensure to do the same for future cloud-based GSS Tools.	Improved information security	FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts (AUD-2020-013, September 17, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should modify existing cloud-based GSS Tool contracts to include the required IT security provisions and ensure future cloud-based GSS Tool contracts include all required provisions.	Improved information security	FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts (AUD-2020-013, September 17, 2020)
	FHFA should reinforce the requirements in the Information System Characterization Methodology to Office of Technology and Information Management Security staff.	Improved information security	FHFA Failed to Follow its Cloud-Based Computing Requirements when it Did Not Validate the Implementation of Minimum Security Requirements for Cloud-Based Tools and Did Not Include Required IT Security Provisions in Some of its Cloud Service Contracts (AUD-2020-013, September 17, 2020)
Cybersecurity Data Collection and Analysis	FHFA should conduct the necessary inquiries and analyses to explain the large disparities in reported cybersecurity events and incidents between the Enterprises, and make use of that information in conjunction with DBR's and DER's respective data collection initiatives.	Improved oversight of information security risks at regulated entities	FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data (EVL-2019-004, September 23, 2019)
	FHFA should evaluate the cybersecurity data it obtains from the regulated entities and revise, as appropriate, the Agency's existing cybersecurity reporting requirements to promote standardization of data, including the use of common definitions.	Improved oversight of information security risks at regulated entities	FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data (EVL-2019-004, September 23, 2019)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
Agency Operations			
Oversight of FHFA Workforce Matters	FHFA should determine the appropriateness of the exclusive referral system established and relied upon by an FHFA hiring official.	Prevent the improper hiring of relatives of Agency employees	<u>FHFA Must Strengthen its Controls over the Hiring of Pathway Interns to Prevent Improper Hiring of Relatives of Agency Employees</u> (OIG-2019-004, March 26, 2019)
	FHFA should develop written procedures for carrying out the functions of the Office of the Ombudsman, to include procedures for documenting that all incoming complaints and appeals are tracked, considered, and appropriately resolved. In developing these procedures, the guidance published by the Coalition of Federal Ombudsmen should be taken into consideration.	Improved management of a statutory function	<u>FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures</u> (AUD-2019-011, September 16, 2019)
Management of Agency Resources	<p>FHFA should reinforce FHFA's reimbursements and stipends program policies and procedures through a reminder to FHFA staff and supervisors involved in initiating, reviewing, and approving reimbursements and stipends to:</p> <ul style="list-style-type: none"> • Reimburse employees for only eligible job-related expenses with required, supporting documentation, • Calculate travel and Examiner-In-Charge stipends correctly, and • Maintain properly executed out-stationed employee agreements. 	Prevent improper payments	<u>For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed</u> (AUD-2020-007, March 26, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should update FHFA's Reimbursements and Stipends Policy 113 to align with management's intent and practice.	Prevent improper payments	For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed (AUD-2020-007, March 26, 2020)
	FHFA should determine and take appropriate action to address the exceptions cited in this report for which the details were separately provided to FHFA management during the audit, e.g., reimburse employees who were underpaid based on Reimbursement and Stipends Policy 113, seek reimbursement from employees who were overpaid based on Reimbursement and Stipends Policy 113, and/or obtain the necessary documentation for reimbursements and stipends that lacked the proper support.	Prevent improper payments	For Fiscal Year 2019, FHFA Did Not Always Follow its Policy for Employee Reimbursements and Stipends; FHFA's Practice for Calculating Employee Travel Stipends Was Not Stated in its Policy Nor Consistently Followed (AUD-2020-007, March 26, 2020)
Management of Agency Records	FHFA should ensure its permanent electronic records are located in and retrievable from FHFA's systems in accordance with division and office file plans.	Improved records management	FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements (AUD-2020-008, March 26, 2020)
	FHFA should direct [its Records and Information Management] section to work with divisions and offices to review and update their respective file plans. That process should include ensuring the file plans include the location of all records, are complete, and link to National Archives and Records Administration-approved records schedules.	Improved records management	FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements (AUD-2020-008, March 26, 2020)

Specific Risk to be Mitigated	Open Recommendation	Expected Impact	Report Name and Date
	FHFA should include all National Archives and Records Administration-required content topics in annual records management training provided to FHFA employees and contractor employees.	Improved records management	FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements (AUD-2020-008, March 26, 2020)
	<p>FHFA should develop and implement procedures to ensure:</p> <ul style="list-style-type: none"> a. FHFA employees and contractor employees complete required annual records management training; b. Contractor employees complete required records management training at the time of onboarding; and c. FHFA senior officials (political appointees, senior agency officials, and senior executives) complete required targeted records management training at the time of offboarding. 	Improved records management	FHFA Needs to Strengthen Controls Over its Records Management Program to Comply with OMB and NARA Requirements (AUD-2020-008, March 26, 2020)

Table III

Summary of Closed, Unimplemented Recommendations

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Property Inspection Quality Controls	FHFA should direct the Enterprises to establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.	Improved quality	FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections (AUD-2014-012, March 25, 2014)
Improperly Reimbursed Property Inspection Claims	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	FHFA Oversight of Fannie Mae's Reimbursement Process for Pre-Foreclosure Property Inspections (AUD-2014-005, January 15, 2014)
Seller/Servicer Resolution of Aged Repurchase Demands	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	FHFA Oversight of Enterprise Handling of Aged Repurchase Demands (AUD-2014-009, February 12, 2014)
Oversight of Enterprise Implementation of Representation and Warranty Framework	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	FHFA's Representation and Warranty Framework (AUD-2014-016, September 17, 2014)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Seller/Servicer Compliance with Guidance	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	FHFA's Oversight of Risks Associated with the Enterprises Relying on Counterparties to Comply with Selling and Servicing Guidelines (AUD-2014-018, September 26, 2014)
Collection of Funds from Servicers	FHFA should publish Fannie Mae's reduction targets and overpayment findings.	Improved transparency	Evaluation of Fannie Mae's Servicer Reimbursement Operations for Delinquency Expenses (EVL-2013-012, September 18, 2013)
Examination Recordkeeping Practices	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	Evaluation of the Division of Enterprise Regulation's 2013 Examination Records: Successes and Opportunities (EVL-2015-001, October 6, 2014)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Oversight of Enterprise Executive Compensation	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.	Improved oversight	Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002, March 17, 2016)
	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.	Improved oversight	Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance (COM-2016-002, March 17, 2016)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	FHFA should re-assess the appropriateness of the annual compensation package of \$3.6 million to the Fannie Mae President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Fannie Mae's continued conservatorship status and the burdens imposed on the taxpayers from that status; and the 10-year practice at Fannie Mae where one individual executed the responsibilities of both the CEO and President positions, with annual compensation capped at \$600,000 since 2015.	Improved governance	FHFA's Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-001, March 26, 2019)
	FHFA should re-assess the appropriateness of the annual compensation package of \$3.25 million to the Freddie Mac President with consideration paid to the following factors: the congressional intent behind the statutory cap on compensation; Freddie Mac's continued conservatorship status and the burdens imposed on the taxpayers from that status; the 10-year practice at Freddie Mac where one individual executed the CEO responsibilities with annual compensation capped at \$600,000 since 2015; and the temporary nature of the position of President, in light of FHFA's representation that Candidate A will leave Freddie Mac if he is not selected for the CEO position.	Improved governance	FHFA's Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation (EVL-2019-002, March 26, 2019)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Oversight of Servicing Alignment Initiative	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	FHFA's Oversight of the Servicing Alignment Initiative (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	FHFA's Oversight of the Servicing Alignment Initiative (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	FHFA's Oversight of the Servicing Alignment Initiative (EVL-2014-003, February 12, 2014)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Oversight of Enterprise Remediation of Deficiencies	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.	Improved remediation of deficiencies	<u>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</u> (EVL-2016-004, March 29, 2016)
	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.	Improved remediation of deficiencies	<u>FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies</u> (EVL-2016-004, March 29, 2016)
Communication of Deficiencies to Enterprise Boards	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	<u>FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate</u> (EVL-2016-005, March 31, 2016)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	<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"> • The purpose for DER's annual presentation to each Enterprise board of directors on the [Report of Examination (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 • 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. 	Improved Board oversight	<p><u>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</u> (EVL-2016-009, July 14, 2016)</p>
	<p>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.</p>	Improved Board oversight	<p><u>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</u> (EVL-2016-009, July 14, 2016)</p>

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Assessing Remediation of Deficiencies	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	<u>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</u> (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	<u>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</u> (EVL-2016-007, July 14, 2016)
	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	<u>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</u> (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	<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> (EVL-2018-002, March 28, 2018)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	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	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 (EVL-2018-002, March 28, 2018)
Identification of Deficiencies and Their Root Causes	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	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)
Oversight of Fannie Mae Headquarters Consolidation and Relocation	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	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)
	FHFA should direct Fannie Mae to provide regular updates and formal budgetary reports to the Division of Conservatorship ¹³ for its review and for FHFA approval through the design and construction of Fannie Mae's leased space in Midtown Center.	Improved oversight	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)

¹³ On January 30, 2020, FHFA's Division of Conservatorship was renamed the Division of Resolutions (DOR).

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Oversight of Fannie Mae Northern Virginia Consolidation and Relocation	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	Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce (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	Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce (OIG-2018-004, September 6, 2018)
Conflicts of Interest	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	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 (OIG-2017-004, March 23, 2017)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
	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	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 (OIG-2017-004, March 23, 2017)
Management of Agency Resources	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.	Improved compliance	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)
	FHFA should assess the \$80,985 in costs that we questioned in this report, as well as any additional costs related to disincentives that may have been triggered after our review period. FHFA should take action to recover these costs, as appropriate, and enforce disincentive clauses going forward. ¹⁴	Reduced costs	Management Advisory: FHFA Failed to Enforce a Provision of an IT Services Contract, Resulting in More than \$80,000 in Questioned Costs (OIG-2020-001, March 3, 2020)

¹⁴ As discussed in the Management Advisory, we determined that an FHFA contractor failed to provide contractually required staffing levels for more than three months but FHFA did not seek (or obtain) a reduction in the amount owed under a disincentive clause in the contract. During this semiannual period, FHFA, while not disputing the OIG analysis of the questioned cost amount, determined that it would not pursue recovery of the questioned cost because government delays with onboarding contractor employees contributed to the contractor's failure to meet the required staffing levels.

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Privacy Information and Data Protection	FHFA should determine the feasibility for automatically disabling inactive application accounts Correspondence Tracking System and Merit Central/Job Performance Plan at a frequency that fits the business needs and update applicable system policies and procedures, as necessary.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
	FHFA should implement a control at the application layer to ensure inactive application accounts for Correspondence Tracking System and Merit Central/Job Performance Plan are disabled in accordance with the determined system frequency. If the application does not accommodate automatic disabling of inactive accounts, then consider implementing manual compensating controls (i.e., manually reviewing and disabling dormant accounts) to help mitigate the risk.	Improved protection of privacy information	Audit of the Federal Housing Finance Agency's 2019 Privacy Program (AUD-2019-009, August 28, 2019)
FHFA Information Technology Security	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019 (AUD-2020-001, October 25, 2019)
	Because information in this report could be used to circumvent FHFA's internal controls, it has not been released publicly.	Improved information security	Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2019 (AUD-2020-001, October 25, 2019)

Specific Risk to be Mitigated	Closed, Unimplemented Recommendation	Expected Impact	Report Name and Date
Supervisory Oversight	FHFA should establish measurable objectives and risk tolerances for the Enterprises' 97% LTV mortgage programs, such as those for acquisition volume and delinquency rates, so that management can better identify, analyze, and respond to risks related to achieving the programs' objectives.	Improved oversight	<u>Weaknesses in FHFA's Monitoring of the Enterprises' 97% LTV Mortgage Programs May Hinder FHFA's Ability to Timely Identify, Analyze, and Respond to Risks Related to Achieving the Programs' Objectives</u> (AUD-2020-014, September 29, 2020)

Appendix C: OI Publicly Reportable Investigative Outcomes Involving Fraud Affecting the FHLBanks, or FHLBank Member Institutions as a Result of (or Related to) the CARES Act PPP

PPP loans were sought, and obtained, from FHLBank member banks. PPP forgivable loans could also be pledged as collateral to the FHLBank by member banks. Fraud in these schemes often involves perpetrators submitting PPP applications with false and misleading statements about a company's business operations and payroll expenses along with supporting documentation that is fabricated and/or altered to include false federal tax filings and employee payroll records to cause lenders to approve the PPP loans. Once the illicit loan proceeds are received, many offenders use the relief money for lavish personal expenses. 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.

Business Owners Charged with COVID Relief Fraud, New York			
Defendant	Role	Most Recent Action	Date
Larry Jordan	Business Owner	Charged by federal criminal complaint with conspiracy to commit wire fraud.	September 8, 2020
Sutukh El	Business Owner	Charged by federal criminal complaint with conspiracy to commit wire fraud.	September 8, 2020

Business Owner Charged with Fraudulently Obtaining Nearly \$2 Million in COVID Relief Funds, Texas			
Defendant	Role	Most Recent Action	Date
Lola Kasali	Business Owner	Charged by federal criminal complaint with making false statements to a financial institution, wire fraud, bank fraud, and engaging in unlawful monetary transactions.	September 4, 2020

Project Manager Charged and Pled Guilty in Connection with COVID Relief Fraud, Oklahoma

Defendant	Role	Most Recent Action	Date
Benjamin Hayford	Project Manager	Pled guilty to bank fraud and making false statements to a financial institution.	August 6, 2020
Benjamin Hayford	Project Manager	Charged by indictment with bank fraud and making false statements to a financial institution.	July 7, 2020
Benjamin Hayford	Project Manager	Charged by federal criminal complaint with wire fraud, bank fraud, making false statements to a financial institution, and making false statements to the SBA.	June 3, 2020

Entrepreneur Charged with Fraudulently Obtaining COVID Relief Loans and Using Proceeds on Lavish Purchases, Including a Lamborghini, Texas

Defendant	Role	Most Recent Action	Date
Lee Price III	Entrepreneur	Charged by federal criminal complaint with making false statements to a financial institution, wire fraud, bank fraud, and engaging in unlawful monetary transactions.	August 3, 2020

Business Owner Charged with Fraudulently Obtaining More Than \$8 Million in COVID Relief Loans; Using Some of the Proceeds for Gambling and Stock Trading Activities, California

Defendant	Role	Most Recent Action	Date
Andrew Marnell	Business Owner	Charged by indictment with bank fraud.	July 28, 2020
Andrew Marnell	Business Owner	Charged by federal criminal complaint with bank fraud.	July 15, 2020

Tech Executive Charged with COVID Relief Fraud and Money Laundering, Washington

Defendant	Role	Most Recent Action	Date
Mukund Mohan	Business Owner	Charged by federal criminal complaint with wire fraud and money laundering.	July 21, 2020

Business Owner Fraudulently Sought Over \$1.1 Million COVID Relief Loans, Texas

Defendant	Role	Most Recent Action	Date
Joshua Argires	Business Owner	Charged by criminal complaint, with making false statements to a financial institution, wire fraud, bank fraud, and engaging in unlawful money transactions.	July 9, 2020

Funeral Director Charged with COVID Relief Fraud, Texas

Defendant	Role	Most Recent Action	Date
Jase Gautreaux	Funeral Director	Charged by federal criminal complaint with making false statements to a financial institution, wire fraud, bank fraud, and engaging in unlawful monetary transactions.	June 22, 2020

Wedding Planning Company Owner Fraudulently Sought More Than \$3 Million in COVID Relief Loans, Texas

Defendant	Role	Most Recent Action	Date
Fahad Shah	Wedding Planning Company Owner	Charged by indictment with wire fraud, false statements to a financial institution, and money laundering.	June 18, 2020

Engineer Fraudulently Sought More Than \$10 Million in COVID Relief Loans, Texas

Defendant	Role	Most Recent Action	Date
Shashank Rai	Engineer	Charged by federal criminal complaint with violations of wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA.	May 12, 2020

Appendix D: 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.

One Sentencing and Multiple Guilty Pleas in Bank Account Takeover Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Eduardo Avila	Participant	Sentenced to 32 months in prison, 5 years supervised release and ordered to pay \$34,538 in restitution.	September 17, 2020
Eduardo Avila	Participant	Pled guilty to bank fraud and aggravated identity theft.	July 7, 2020
Carlos Martinez	Participant	Pled guilty to bank fraud and aggravated identity theft.	July 21, 2020
Tana Gyenis	Participant	Pled guilty to bank fraud and aggravated identity theft.	July 20, 2020
Michael Olmeda DeJesus	Participant	Pled guilty to bank fraud and aggravated identity theft.	July 17, 2020
Two Charged in Bank Fraud Scheme, Oklahoma			
Defendant	Role	Most Recent Action	Date
John Linthicum	Business Owner	Charged by indictment with conspiracy to commit bank fraud and bank fraud.	September 9, 2020
Douglas Mayfield	Business Owner	Charged by information with conspiracy to commit bank fraud.	June 25, 2020

Six Individuals Charged in the Investigation into the Failure of a Chicago Bank, Illinois

Defendant	Role	Most Recent Action	Date
Robert Kowalski	Attorney/Business Owner	Charged by indictment with conspiracy to commit embezzlement and falsify bank records, failure to file income tax returns, filing false personal and corporate returns, bankruptcy fraud, and concealment of assets.	August 27, 2020
Jan Kowalski	Attorney	Charged by indictment with bankruptcy fraud and concealment of assets.	August 27, 2020
Rosallie Corvite	Former Bank CFO	Charged by indictment with conspiracy to commit embezzlement and falsify bank records, and falsifying bank records.	August 27, 2020
Jane Iriondo (Tran)	Former Corporate Secretary	Charged by indictment with conspiracy to commit embezzlement and falsify bank records, and falsifying bank records.	August 27, 2020
Alicia Mandujano	Former Loan Officer	Charged by indictment with conspiracy to commit embezzlement and falsify bank records and falsifying bank records.	August 27, 2020
Cathy Torres	Former Loan Officer	Charged by indictment with conspiracy to commit embezzlement and falsify bank records and falsifying bank records.	August 27, 2020

Former President of Cecil Bank Pled Guilty in a Bank Fraud Scheme Involving Bribery and False Statements, Maryland

Defendant	Role	Most Recent Action	Date
Mary Halsey	Former President and Chief Executive Officer	Pled guilty to conspiracy to commit bank fraud, receipt of a bribe by a bank official, and false statement in bank records.	July 31, 2020

Former Bank Executive Sentenced in Embezzlement Fraud Scheme, Tennessee

Defendant	Role	Most Recent Action	Date
Connie Clabo	Vice President of Loan Operations	Sentenced to 15 months in prison, four years of supervised release, and ordered to pay \$516,630 in restitution.	July 22, 2020

Guilty Plea of Former Bank CEO to Wire Fraud and False Tax Returns, Minnesota

Defendant	Role	Most Recent Action	Date
Peter Dahl	Former Chief Executive Officer	Pled guilty to wire fraud and filing a false income tax return.	July 21, 2020

Title Company Owner Sentenced for Selling Fictitious Title Insurance Policies, North Carolina

Defendant	Role	Most Recent Action	Date
Ginger Cunningham	Title Company Owner	Sentenced to 14 months in prison, three years of supervised release, and ordered to pay \$412,344 in restitution.	July 16, 2020

Former President of First Mortgage Company Charged with Financial Fraud, Oklahoma

Defendant	Role	Most Recent Action	Date
Ronald McCord	Former President	Charged by indictment with bank fraud, money laundering, and making a false statement to a financial institution.	June 3, 2020

Appendix E: 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.

Three Sentenced in Condominium Conversion/Builder Bailout Scheme, Illinois			
Defendant	Role	Most Recent Action	Date
Igor Krivoruchko	Real Estate Developer	Ordered to pay \$108,429 in restitution, joint and several.	September 29, 2020
Igor Krivoruchko	Real Estate Developer	Sentenced to one day, time served, and two years of supervised release.	September 25, 2020
Oksana Chura	Real Estate Agent/ Loan Officer	Sentenced to one year of probation and ordered to pay \$177,724 in restitution, joint and several.	September 3, 2020
Lily Harutunian	Title Company Owner	Sentenced to one day, time served, one year of supervised release, and ordered to pay \$496,933 in restitution, joint and several.	July 20, 2020

Loan Officer and Real Estate Developer Sentenced for Conspiracy to Make False Statements to Banks, Florida			
Defendant	Role	Most Recent Action	Date
Jonathan Marmol	Loan Officer	Sentenced to 15 months in prison, 3 years of supervised release and ordered to pay \$317,303 in restitution, joint and several.	June 9, 2020
Mordechai Boaziz	Real Estate Developer	Sentenced to 90 days in prison, 3 years of supervised release, and ordered to pay \$5,364,354 in restitution, joint and several.	June 5, 2020

Appendix F: 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.

Multi-Year Prison Sentences in Loan Origination Scheme, Illinois			
Defendant	Role	Most Recent Action	Date
Amber Cook	Loan Processor	Sentenced to 48 months in prison, 5 years supervised release and ordered to pay \$4,772,200 in restitution, joint and several.	September 29, 2020
Irma Holloway	Business Owner	Sentenced to 24 months in prison, 5 years supervised release and ordered to pay \$3,696,335 in restitution, joint and several.	September 16, 2020

Twelve Charged and One Guilty Plea in Multi-Year Mortgage Fraud Scheme, Georgia			
Defendant	Role	Most Recent Action	Date
Eric Hill	Real Estate Agent	Pled guilty to conspiracy to commit bank fraud and wire fraud.	September 21, 2020
Eric Hill	Real Estate Agent	Charged by information with conspiracy to commit bank fraud and wire fraud.	September 4, 2020
Robert Kelske	Real Estate Broker	Charged by indictment with conspiracy to commit bank fraud and wire fraud, bank fraud, wire fraud and false statements to a mortgage lender.	September 9, 2020
Fawziyyah Connor	Document Fabricator	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020

Stephanie Hogan	Document Fabricator	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020
Jerod Little	Employment Verifier	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020
Renee Little	Employment Verifier	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020
Maurice Lawson	Employment Verifier	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020
Todd Taylor	Employment Verifier	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020
Paige McDaniel	Employment Verifier	Charged by indictment with conspiracy to commit bank fraud, bank fraud and false statements to a mortgage lender.	September 9, 2020
Anthony Richard	Real Estate Agency Owner	Charged by indictment with conspiracy to commit wire fraud and wire fraud.	September 9, 2020
Cephus Chapman	Real Estate Agency Owner	Charged by indictment with conspiracy to commit wire fraud and wire fraud.	September 9, 2020
Donald Fontenot	Employment Verifier	Charged by information with conspiracy to commit bank fraud.	September 3, 2020

Appraiser Charged for Running an Appraisal Mill of Unlicensed Appraisers, Texas

Defendant	Role	Most Recent Action	Date
Daniel O'Leary	Appraiser	Charged by indictment with false statements to obtain credit of more than \$300,000.	August 13, 2020

Loan Officer Charged and Pled Guilty for Role in Mortgage Fraud Scheme, Illinois

Defendant	Role	Most Recent Action	Date
Christopher Schaller	Loan Officer	Pled guilty to wire fraud.	August 18, 2020
Christopher Schaller	Loan Officer	Charged by indictment with wire fraud.	September 4, 2019 (unsealed May 22, 2020)

Former Real Estate Attorney and Wife Indicted for Mortgage Fraud Schemes, Massachusetts

Defendant	Role	Most Recent Action	Date
Barry Plunkett Jr.	Former Attorney	Charged by indictment with bank fraud, aggravated identity theft and tax evasion.	July 28, 2020
Nancy Plunkett	Participant	Charged by indictment with bank fraud and aggravated identity theft.	July 28, 2020

Former Loan Officer Admits Role in Mortgage Fraud Scheme, New Jersey

Defendant	Role	Most Recent Action	Date
Blanca Medina	Former Loan Officer	Charged by information and pled guilty to conspiracy to commit bank fraud.	June 16, 2020

Appendix G: 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.

A Sentencing and Guilty Pleas in Short Sale Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Linda Cagwin	Title Agent	Pled guilty to conspiracy to make a false statement to a financial institution.	September 30, 2020
Thomas Kepler	Investor	Sentenced to five years’ probation and ordered to pay \$139,243 in restitution, joint and several.	August 6, 2020
Thomas Kepler	Investor	Pled guilty to conspiracy to make a false statement to a financial institution.	May 4, 2020
Marianne Keim	Recruiter	Pled guilty to conspiracy to make a false statement to a financial institution.	June 18, 2020

Six Family Members Pled Guilty in Short Sale Fraud Scheme, Florida

Defendant	Role	Most Recent Action	Date
Grace Pazmino	Co-Conspirator	Pled guilty to conspiracy to commit bank fraud.	August 7, 2020
Rene Pazmino	Co-Conspirator	Pled guilty to conspiracy to commit bank fraud.	August 6, 2020
Jared Marble	Co-Conspirator	Pled guilty to conspiracy to commit bank fraud.	August 5, 2020
Diane Pazmino-Robinson	Co-Conspirator	Pled guilty to conspiracy to commit bank fraud.	August 5, 2020
Valentin Pazmino	Co-Conspirator	Pled guilty to conspiracy to commit bank fraud.	August 4, 2020
Ana Cummings	Co-Conspirator	Pled guilty to conspiracy to commit bank fraud.	August 3, 2020

Short Sale Negotiator Pled Guilty to Defrauding Mortgage Lenders, Massachusetts

Defendant	Role	Most Recent Action	Date
Gabriel Tavaréz	Short Sale Negotiator	Pled guilty to conspiracy to commit wire fraud and aggravated identity theft.	June 3, 2020

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

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.

One Pled Guilty and Sentenced in Forged Deed Fraud Scheme of REO GSE Property, Washington			
Defendant	Role	Most Recent Action	Date
OC Thompson	Participant	Pled guilty to forgery and was sentenced to time served.	July 13, 2020

Business Owner Charged for Role in Deed Fraud Scheme, Texas			
Defendant	Role	Most Recent Action	Date
Ira Davis	Business Owner	Charged by indictment with conspiracy to commit wire fraud, bank fraud, and aggravated identity theft.	March 11, 2020 (unsealed June 18, 2020)

Restitution Ordered Against Business Owner for REO Bid-Rigging Scheme, Massachusetts			
Defendant	Role	Most Recent Action	Date
Talal Soffan	Business Owner	Ordered to pay \$427,374 in restitution, in addition to the \$148,489 already paid.	April 13, 2020

Appendix I: OI Publicly Reportable Investigative Outcomes Involving 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. 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.

Prisoner Pled Guilty and was Sentenced in Deed Fraud Scheme, Texas			
Defendant	Role	Most Recent Action	Date
Arnoldo Ortiz	Prisoner	Pled guilty to forgery of a financial instrument and sentenced to two years in prison.	September 30, 2020
Guilty Plea in National Foreclosure Relief Scheme, Ohio			
Defendant	Role	Most Recent Action	Date
John Nelson	Chief Counsel/ Director of Litigation	Pled guilty to bankruptcy fraud.	September 21, 2020
Real Estate Agent Sentenced in Bankruptcy Fraud Scheme, Florida			
Defendant	Role	Most Recent Action	Date
Tanya Firmani	Real Estate Agent	Sentenced to three years of probation and ordered to pay \$41,434 in restitution, joint and several.	June 1, 2020

Former Attorney Charged with Conspiracy and Bankruptcy Fraud in Scheme to Defraud Mortgage Creditors and Homeowners, Florida

Defendant	Role	Most Recent Action	Date
James Clark	Former Attorney	Charged by indictment with conspiracy to commit bankruptcy fraud, bankruptcy fraud, making a falsification of records in a bankruptcy proceeding, and wire fraud.	March 13, 2020 (unsealed May 27, 2020)

Business Owner Charged for Role in Deed Fraud Scheme, California

Defendant	Role	Most Recent Action	Date
Janie Burns	Business Owner	Charged with procuring and offering a false or forged instrument.	May 12, 2020

Real Estate Investor Charged with Wire Fraud for Role in Deed Fraud Scheme, Georgia

Defendant	Role	Most Recent Action	Date
Christopher Grooms	Real Estate Investor	Charged by information with wire fraud.	April 20, 2020

Appendix J: 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 is the name of a defendant in the scheme, his role, the most recent action in the case, and the date of the action.

Managing Partner of a Realty Company Charged with Wire Fraud and Bank Fraud in a Multistate Multifamily Fraud Scheme, Missouri			
Defendant	Role	Most Recent Action	Date
Michael Fein	Managing Partner	Charged by indictment with wire fraud and bank fraud.	August 20, 2020

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: 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 institutions but do not lend directly to individual borrowers.

Fiscal Year 2020: OIG's FY 2020 covers October 1, 2019, through September 30, 2020.

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: 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 authorized 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 amended 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 Control: A process 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.

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 do not 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

Agency	Federal Housing Finance Agency
CARES Act	Coronavirus Aid, Relief, and Economic Stability Act
CECL	Current Expected Credit Loss
CEO	Chief Executive Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIU	Cyber Investigation Unit
CSS	Common Securitization Solutions, LLC
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DOJ	Department of Justice
DOR	Division of Resolutions (Formerly Division of Conservatorship (DOC))
Enterprises	Fannie Mae and Freddie Mac
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FinCEN	Financial Crimes Enforcement Network
FISMA	Federal Information Security Modernization Act of 2014
FSOC	Financial Stability Oversight Council
FY	Fiscal Year
GAO	Government Accountability Office

GSE	Government-Sponsored Enterprise
GSS	General Support System
HERA	Housing and Economic Recovery Act of 2008
HUD-OIG	Department of Housing and Urban Development Office of Inspector General
IG	Inspector General
IRS-CI	Internal Revenue Service-Criminal Investigation
NIST	National Institute of Standards and Technology
OA	Office of Audits
OCom	Office of Compliance and Special Projects
OE	Office of Evaluations
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
ROE	Report of Examination
SA	Special Agent
SARs	Suspicious Activity Reports
SGE	Senior Government Employee
TCRs	Tips, Complaints, or Referrals
Treasury	U.S. Department of the Treasury



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