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Federal Housing Finance Agency  
Office of Inspector General



**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**

This report contains redactions of information that is privileged or confidential.

Audit Report • AUD-2020-014 • September 29, 2020



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2020

## Executive Summary

The Federal Housing Finance Agency (FHFA or Agency), established by the Housing and Economic Recovery Act of 2008, is responsible for the supervision, regulation, and housing mission oversight of Fannie Mae and Freddie Mac (together, the Enterprises), and the Federal Home Loan Bank System (FHLBanks), and the FHLBanks' fiscal agent, the Office of Finance. Since 2008, FHFA has also served as conservator of the Enterprises.

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. FHFA assessed the Enterprises' 97% LTV mortgage program proposals in a 2014 Division of Housing Mission and Goals (DHMG) Staff Analysis Memorandum (2014 Staff Memorandum), and the FHFA Director approved the programs on December 3, 2014.

The 2014 Staff Memorandum acknowledged that "historical performance demonstrates that higher LTV loans can have higher risks than lower LTV loans and can have higher loss severities," but asserted that these higher risks can be safely offset by thoughtful compensating factors and risk mitigants. The 2014 Staff Memorandum identified FHFA 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. Within FHFA, that oversight function was assigned to the Office of Housing and Regulatory Policy (OHRP) within DHMG.

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 occurred during the period January 1, 2017, through December 31, 2019 (review period). Our audit found weaknesses in the process established by OHRP to monitor the Enterprises' 97% LTV mortgage programs that may hinder FHFA's 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, even though an OHRP 2017 report identified the need for FHFA to establish internal thresholds for delinquency. 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



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follow its own guidance requiring preparation of periodic monitoring dashboards beginning in 2019: as of May 2020, it prepared only two monitoring dashboards for 2019. Such weaknesses, taken along with policy changes initiated by FHFA based on policy monitoring activities other than the monitoring dashboards, calls into question whether the oversight contemplated by the 2014 Staff Memorandum has been consistently performed.

We make three recommendations to address the identified shortcomings. In a written management response, FHFA disagreed with our recommendation to establish measurable objectives and risk tolerances for the Enterprises' 97% LTV mortgage programs. FHFA also disagreed with our recommendation to develop and issue written guidance to the Enterprises on the data elements to be reported regularly for FHFA's monitoring of the 97% LTV mortgage programs. However, it agreed that it needs to improve the reliability of the Enterprise information in order to oversee effectively the Enterprises' 97% LTV mortgage programs and has proposed an alternative approach that is responsive to the intent of our recommendation. FHFA agreed with our third recommendation to (1) clarify and reinforce OHRP's guidance regarding the frequency of 97% LTV Monitoring Dashboard preparation to OHRP staff and (2) ensure that the 97% LTV Monitoring Dashboards are prepared and reviewed in accordance with that guidance. FHFA's management comments and our response are provided in the body of this report.

This report was prepared by James Lisle, Audit Director; April Ellison, Auditor-in-Charge; Michael Rivera, Auditor; and with assistance from Abdil Salah, Assistant Inspector General for Audits; and Bob Taylor, Senior Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, [www.fhfaoig.gov](http://www.fhfaoig.gov), and [www.oversight.gov](http://www.oversight.gov).

Marla A. Freedman, Senior Audit Executive /s/

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## ABBREVIATIONS .....

2014 Staff Memorandum	DHMG Staff Analysis Memorandum: 97% Loan-to-Value First-Time Home Buyer Loan Program
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DTI	Debt-to-Income
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHFA or Agency	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
FTHB	First-time Homebuyer
Green Book	Standards for Internal Control in the Federal Government
HFA's	Housing Finance Agencies
LTV	Loan-to-Value
OHRP	Office of Housing and Regulatory Policy
OIG	Federal Housing Finance Agency Office of Inspector General
SDQ	Serious Delinquency (Rate)
UPB	Unpaid Principal Balance

## BACKGROUND .....

### **FHFA Approved the Enterprises' 97% LTV Mortgage Programs in 2014**

In 2014, at the direction of FHFA, the Enterprises submitted 97% 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. FHFA assessed the Enterprises' 97% LTV mortgage program proposals in a DHMG Staff Analysis memorandum titled "97% Loan-to-Value First-Time Home Buyer Loan Program" (2014 Staff Memorandum), and the FHFA Director approved the programs on December 3, 2014.

Under these programs, each Enterprise offers 97% LTV mortgage products tailored to low-income borrowers and/or first-time homebuyers (FTHB). Each Enterprise also offers a 97% LTV mortgage product through state and local housing finance agencies (HFAs) to serve low and moderate-income borrowers.<sup>1</sup> Freddie Mac's 97% LTV mortgage product for HFAs was approved through the 2014 Staff Memorandum. Fannie Mae already had a 97% LTV mortgage product offered with certain HFAs prior to the December 2014 approval, and these products continued along with the newly approved programs.

### **FHFA Identified Controls to Mitigate Higher Risk in the Enterprises' 97% LTV Mortgage Programs**

The 2014 Staff Memorandum acknowledged that "historical performance demonstrates that higher LTV loans can have higher risks than lower LTV loans and can have higher loss severities," but asserted that these higher risks can be safely offset by thoughtful compensating factors and risk mitigants, including strong borrower eligibility requirements and low volume; automated underwriting decisions with maximum or minimum parameters for credit terms such as FICO scores, debt-to-income (DTI) ratios, and reserves; private mortgage insurance; and homeownership education for borrowers. The 2014 Staff Memorandum also identified FHFA oversight as another important risk mitigant:

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<sup>1</sup> According to the National Council of State Housing Agencies, HFAs are state-chartered authorities established to help meet the affordable housing needs of the residents of their states. Although they vary in characteristics such as their relationship to state government, most HFAs are independent entities that operate under the direction of a board of directors appointed by each state's governor. They administer a wide range of affordable housing and community development programs.

FHFA's ongoing monitoring<sup>2</sup> of the implementation and performance of Enterprise initiatives, in addition to Enterprise quality control findings, is an important oversight control. The Enterprises will provide regular reports to FHFA on loan delivery volumes, loan performance, and average credit parameters. In addition to serving as a monitoring tool, these reports will help FHFA develop future policy adjustments, as needed.

The 2014 Staff Memorandum did not define the specific timing or content of the Enterprises' required reports but stated that FHFA would review information in these reports and "take steps as appropriate as part of the agency's ongoing oversight and conservatorship responsibilities."

### **OIG Audits in 2018 Found that, with Few Exceptions, 97% LTV Mortgages Acquired under Programs Approved in December 2014 Conformed to the Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education; the Audits also Reported on FHFA Oversight Activities through December 31, 2016**

We issued two audits in 2018 that assessed FHFA's oversight of the Enterprises' implementation of the 97% LTV mortgage programs over the period December 3, 2014, to December 31, 2016.<sup>3</sup> In these audits, we analyzed data on the mortgages purchased by the Enterprises under the 97% LTV mortgage programs and assessed whether they conformed to three FHFA-required credit terms: (1) method of underwriting, (2) mortgage insurance, and (3) homeownership education. We found that the three credit risk mitigants of automated underwriting, mortgage insurance, and homeownership education were largely met, based on Enterprise data. Our audit determined that FHFA had engaged in some oversight activities focused on the Enterprises' purchases of high LTV mortgages, such as a briefing by DHMG to the Division of Enterprise Regulation (DER) on the 97% LTV mortgage programs' parameters to facilitate DER's ability to conduct supervisory activities, and the preparation of monitoring dashboards.

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<sup>2</sup> The term "ongoing monitoring" in the 2014 Staff Memorandum does not have the same meaning as the term ongoing monitoring as one of the supervisory activities performed by FHFA's Division of Enterprise Regulation (DER) to assess the safety and soundness of the Enterprises. DER conducts ongoing monitoring activities to analyze and identify Enterprise practices and changes in an Enterprise's risk profile that may warrant supervisory attention. OHRP conducts policy monitoring reviews of certain Enterprise policy implementations, including the 97% LTV mortgage programs.

<sup>3</sup> *OIG, Audit of FHFA's Oversight of Fannie Mae's Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV* (Mar. 8, 2018) (AUD-2018-003) (online [here](#)); and *OIG, Audit of FHFA's Oversight of Freddie Mac's Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV* (Mar. 8, 2018) (AUD-2018-004) (online [here](#)).



The objective of this audit is to assess whether the risk mitigant of FHFA’s review of Enterprise data on loan delivery volumes, loan performance, and average credit parameters occurred during the period January 1, 2017, through December 31, 2019.<sup>45</sup>

## **FHFA’s Monitoring for the Enterprises’ 97% LTV Mortgage Programs**

### ***Monitoring by the Division of Housing Mission and Goals***

FHFA’s OHRP, within DHMG, is responsible for monitoring of the Enterprises’ 97% LTV mortgage programs approved through the 2014 Staff Memorandum. OHRP’s monitoring process for the 97% LTV mortgage programs was codified in written guidance issued in March 2019. According to this guidance:

The Policy Analyst reviews Enterprise reports periodically (such as, monthly for 97% LTV performance...). The Policy Analyst prepares a periodic summary analysis highlighting trends and any concerns.<sup>6</sup>

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<sup>4</sup> DER performs supervisory activities over the Enterprises’ 97% LTV mortgage programs. One supervisory activity, initiated in 2017 and completed in February 2019, concluded that Fannie Mae’s design of its high LTV mortgage programs was reasonable but recognized that 97% LTV mortgages are one of the riskier loan types acquired by Fannie Mae and have grown rapidly over the past several years. This supervisory activity, among other things, issued two matters requiring attention (MRAs), the most serious adverse examination finding, requiring that Fannie Mae conduct and document detailed analyses for establishing a risk limit for high LTV loans and improve its monitoring of program variance performance and of sellers’ automated underwriting systems. DER plans to review the Enterprise’s claimed corrective actions as part of its 2020 examination activities.

Based on a 2017 Freddie Mac supervisory activity, examiners noted that “[w]hile the low volume of the 97 LTV product does not rise to the level of a significant safety and soundness concern today, the rapid growth of the product...need[s] to be closely monitored going forward.” In 2019, examiners observed that the performance of mortgages that Freddie Mac originated through HFAs provided a good illustration of credit risk associated with the purchase of loans with multiple risk layers. They noted that the performance of these mortgages was much worse than the overall population of single-family loans and two times worse than a Freddie Mac affordable loan product that focused on low-income borrowers.

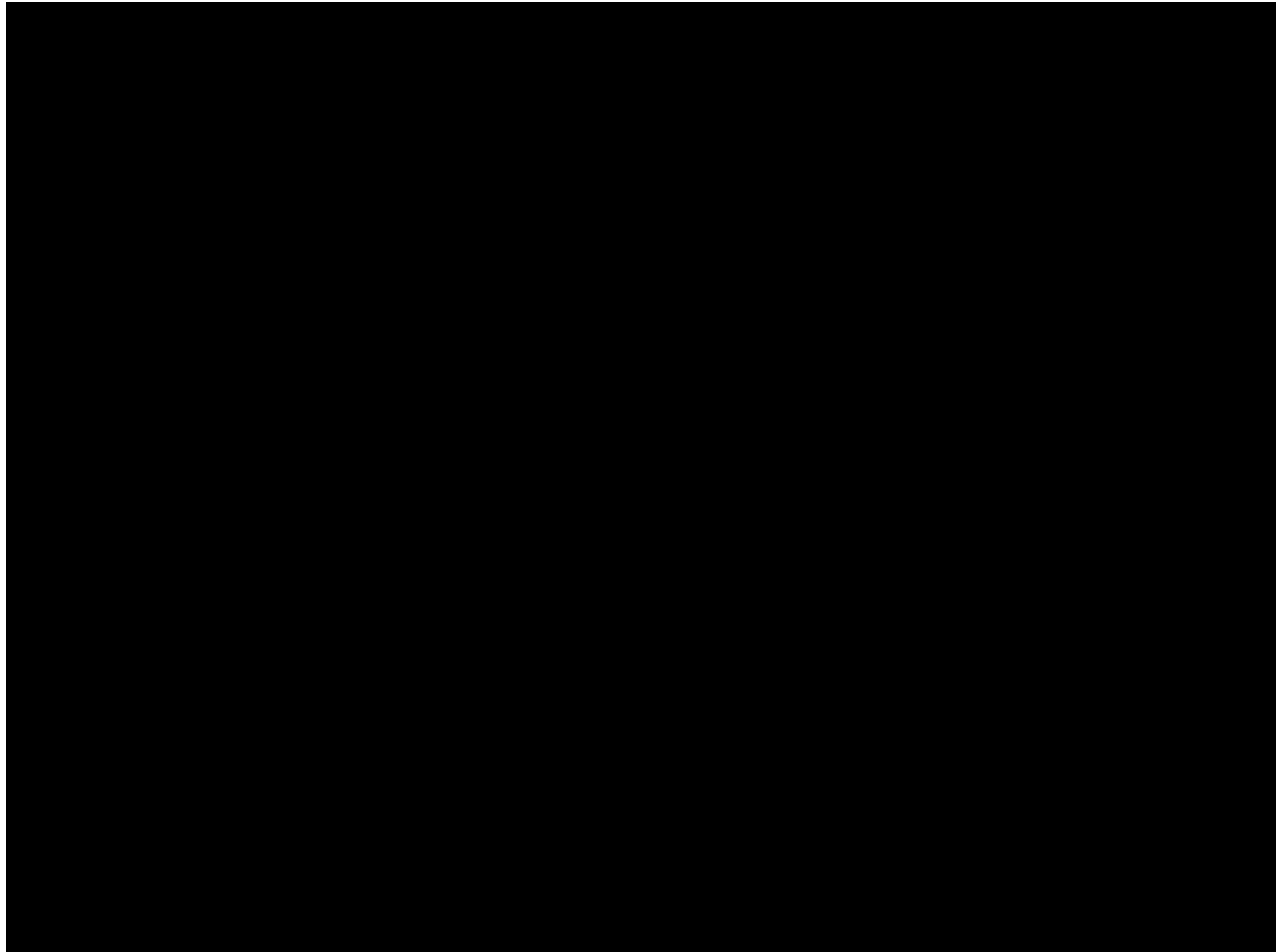
<sup>5</sup> This report examines data on the Enterprises’ 97% LTV mortgage programs during the review period when the Enterprises’ 97% LTV mortgage programs had not been subjected to economic stress.

We recognize that the COVID-19 pandemic may impact borrowers with 97% LTV mortgages. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) seeks to address some of the economic effects from the COVID-19 pandemic. Section 4022 of the CARES Act, among other things, gives single-family borrowers 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, upon an attestation of hardship. For a detailed discussion of this forbearance provision, see OIG, *Oversight by Fannie Mae and Freddie Mac of Compliance with Forbearance Requirements Under the CARES Act and Implementing Guidance by Mortgage Servicers* (July 27, 2020) (OIG-2020-004) (online [here](#)).

<sup>6</sup> Prior to March 2019, OHRP’s process for reviewing the 97% LTV mortgage programs had not been reduced to writing; however, the process as described was the process in practice.

The periodic summary analysis prepared by OHRP for the 97% LTV mortgage programs is called “97% Loan-to-Value Ratio Monitoring Dashboard” (97% LTV Monitoring Dashboard). Each 97% LTV Monitoring Dashboard, which has evolved over time, consists of a summary page and supporting charts and graphs with more granular analyses and historical trends, and presents the Enterprises’ 97% LTV loan volume, average credit parameters, and loan performance as well as the policy analyst’s concerns/commentary about the information. See Figure 1 below for an example of one summary page. An approval sheet requires sign-off by DHMG officials, including the Deputy Director, DHMG, to reflect their review.

**FIGURE 1. OHRP NOVEMBER 2019 97% LTV MONITORING DASHBOARD, SUMMARY PAGE**



Source: FHFA

## **During 2017 Through 2019, Fannie Mae and Freddie Mac Reported: 97% LTV Mortgage Acquisitions Increased Year over Year, Credit Parameters of the Borrowers (Which Were Within FHFA’s Limits), and Serious Delinquency Rates for 97% LTV Mortgages (Which Were 0.71% and 0.42%, Respectively)**

In their monthly reports to FHFA, the Enterprises showed, through their data, that their 97% LTV mortgage acquisitions had grown year over year, and that the credit scores and DTI ratios for these mortgages fell, all within the limits set forth in the 2014 Staff Memorandum. The Enterprises also provided data on the serious delinquency (SDQ) rate for their respective 97% LTV mortgage programs. We discuss each of these elements below.

### ***Annual Acquisition Volume***

The 2014 Staff Memorandum recognized the higher risk inherent in 97% LTV mortgages but explained that FHFA was prepared to authorize the Enterprises to accept that higher risk because the volume of 97% LTV mortgages that they projected for 2015 and 2016 represented “a small portion of their annual single-family 30 year flow business (approximately 1.5% and 1.0% [respectively]).” The 2014 Staff Memorandum did not provide volume estimates for years after 2016.

During our review period, both Enterprises reported year-over-year increases in 97% LTV mortgage acquisitions. Fannie Mae reported purchases of 468,053 97% LTV mortgages with an unpaid principal balance (UPB) of \$95.1 billion, amounting to 6.2% of the UPB for its total single-family mortgage acquisitions over three years. Freddie Mac reported purchases of 183,431 97% LTV mortgages with a UPB of \$35.1 billion, amounting to 3.2% of the UPB for its total single-family mortgage acquisitions over three years.

### ***Average Credit Parameters***

The 2014 Staff Memorandum observed that the Enterprises use their automated underwriting systems to make credit decisions and evaluate components of a borrower risk profile such as credit history, delinquent accounts, borrower’s equity, reserves, DTI ratio, and LTV. The same memorandum also noted that the credit profile for Fannie Mae’s 97% LTV mortgages acquired between 2012 and 2014 showed an average FICO score of 748 and an average DTI ratio of 35%. (Because the 2014 Staff Memorandum found that Freddie Mac had less recent experience with 97% LTV mortgages, it did not provide comparable averages.) For the approved 97% LTV mortgage programs, the 2014 Staff Memorandum established among

other things, a minimum FICO score of 620 for Fannie Mae and 660 for Freddie Mac and a maximum DTI ratio of 45% for both Enterprises.<sup>7</sup>

As reported by the Enterprises, the average credit scores and DTI ratios for the 97% LTV mortgages acquired during the review period fell within the credit limits approved by FHFA: the average credit scores for Fannie Mae and Freddie Mac mortgage acquisitions were 734 and 738, respectively, and the average DTI was 38.34% and 37.39%, respectively.<sup>8</sup>

### ***Serious Delinquency Rates***

For the Enterprises' 97% LTV mortgage programs authorized by the 2014 Staff Memorandum, the SDQ rate is defined as the percentage of mortgages 90 or more days delinquent to the total mortgages acquired. (The SDQ rate is reported on the 97% LTV Monitoring Dashboard summary page shown in Figure 1 as the 90+DLQ.) According to Enterprise data, as of December 2019, the SDQ rate for Fannie Mae's 97% LTV mortgages was 0.71% and the SDQ rate for Freddie Mac's 97% LTV mortgages was 0.42%.

## **FACTS AND ANALYSIS .....**

### **FHFA Has Failed to Define Measurable Objectives and Establish Risk Tolerances for Volume and Serious Delinquency Rates for the Enterprises' 97% LTV Mortgage Programs**

The 2014 Staff Memorandum defined a broad policy objective for 97% LTV mortgage programs: to provide access to credit and homeownership opportunities for creditworthy borrowers that have sufficient income and an ability to pay a mortgage but lack the means to make a significant down payment. While the same memorandum established credit parameters (FICO score and DTI, which FHFA has subsequently altered), FHFA projected, in the 2014 Staff Memorandum, that the volume of 97% LTV mortgages acquired by Freddie Mac and Fannie Mae during 2015 and 2016 would represent "a small portion of their annual single-family 30 year flow business (approximately 1.0% and 1.5% [respectively])." The 2014 Staff Memorandum did not provide volume estimates for years after 2016. During our review period, the UPB of 97% LTV mortgage acquisitions for Fannie Mae and Freddie Mac

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<sup>7</sup> In April 2017, FHFA directed that the Enterprises could acquire 97% LTV mortgages made to certain borrowers with DTI ratios as high as 50%.

<sup>8</sup> The average credit parameters for Fannie Mae 97% LTV mortgages excludes 97% LTV mortgages to people who were not first-time home buyers (FTHBs) because of incomplete reporting data provided by the Enterprise.

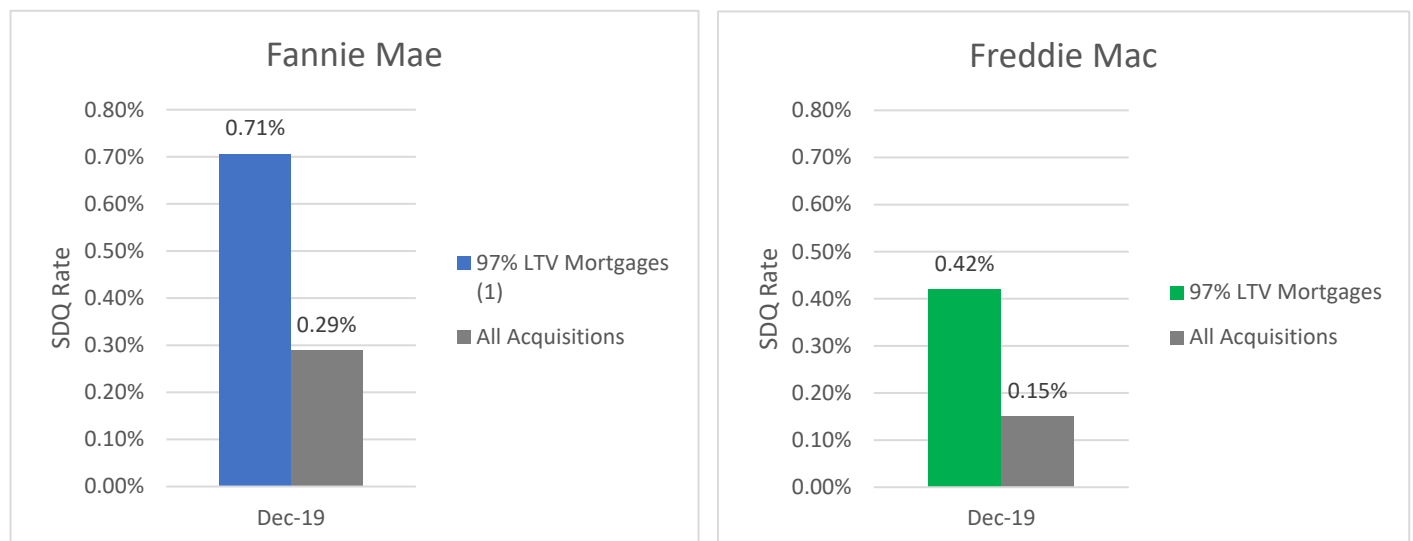
increased year over year and were 6.2% and 3.2%, respectively, of their total single-family mortgage acquisitions.

We found no evidence that FHFA or OHRP established expectations for, or limits on, 97% LTV mortgage volume after 2016. One OHRP official advised that his concern threshold regarding volume of 97% LTV loans would be triggered if it amounted to more than 10% of the Enterprises' annual single-family-30 year flow purchases. His threshold was far greater than the 1.5% and 1.0% loan volume expectations set forth in the 2014 Staff Memorandum. To our knowledge, OHRP has not announced similar expectations.

The 2014 Staff Memorandum set no expectations and made no projections of serious delinquencies for these 97% LTV programs for any years. It announced that “[d]ata shows that loans with higher LTVs (i.e., >95-97 LTV) historically have had higher default rates and foreclosure rates than loans with LTVs from 90-95%. . . . However, data also show that strong underwriting requirements for high LTV loans, such as stronger credit histories, can be used to effectively manage risk.” The same memorandum posited that based on analysis, “. . . loans in the >95-97% LTV band with stronger compensating factors often perform better than loans at a lower LTV without these risk offsets.”

Based on our analysis of Enterprise data, we found that as of December 2019, the SDQ rate for Fannie Mae's 97% LTV mortgages was 2.4 times higher than the SDQ rate for all mortgages acquired. Similarly, the SDQ rate for Freddie Mac's 97% LTV mortgages was 2.8 times higher than the SDQ rate for all mortgages acquired. See Figure 2 below.

**FIGURE 2. SDQ RATES FOR THE ENTERPRISES' 97% LTV MORTGAGES COMPARED TO ALL MORTGAGES ACQUIRED SINCE 2015, AS OF DECEMBER 2019**



Source: OIG analysis of Enterprise data.

(1) The SDQ rate for Fannie Mae 97% LTV mortgages includes HFA 97% LTV mortgages acquired before 2015 but excludes 97% LTV mortgages to people who were not FTHBs because of incomplete reporting data from the Enterprise.

An OHRP 2017 report recognized that FHFA had not established delinquency thresholds for the Enterprises' 97% LTV mortgage programs and observed that while both Enterprises' delinquency rates remained relatively low, one Enterprise's delinquency rate had increased over a two-month period overall and relative to the portfolio. According to this report, both the lack of a threshold and this increase have "highlighted the need for FHFA to establish internal thresholds for delinquency." It "[r]ecommend[ed] internal FHFA threshold for **management notification and program suspension** for the Enterprises' 97% LTV programs[.]" (emphasis added) That recommendation aligns with the internal control principles in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book):<sup>9</sup> to "define objectives clearly to enable the identification of risks and define tolerances" and "design responses to the analyzed risks so that risks are within the defined risk tolerance for the defined objective." Had FHFA defined measurable expectations for the Enterprises' 97% LTV mortgage programs in terms of delinquency rates and volume, it could have established associated risk tolerances and actions to be taken if those tolerances are exceeded.

We found no evidence that FHFA set such delinquency risk tolerances/thresholds for the Enterprises' 97% LTV mortgage programs, pursuant to this OHRP recommendation and internal control principles in the Green Book. An OHRP senior official reported to us that DHMG concluded, subsequent to its 2017 report, that such thresholds would be difficult to set and determined it was not appropriate at the time. This same official suggested that the role of setting specific limits/targets/triggers may be more appropriate for an office other than OHRP. Our inquiries of FHFA revealed that no other office had set delinquency thresholds for the Enterprises' 97% LTV mortgage programs. According to the OHRP official, OHRP concluded that it would not be appropriate to set targets for the programs because they have already reported successful metrics. He offered one successful metric as an example: 80% to 90% of the 97% LTV mortgages had been made to FTHBs, which were identified in the 2014 Staff Memorandum as a focus of the 97% LTV mortgage programs. Because the 2014 Staff Memorandum did not provide measurable objectives to assess the success of 97% LTV mortgages for FTHBs, OHRP's claim of success cannot be assessed.

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<sup>9</sup> The Green Book approaches internal control through a hierarchical structure of five components (control environment, risk assessment, control activities, information and communication, and monitoring) and 17 principles.

## **The Effectiveness of FHFA’s Monitoring of the Enterprises’ 97% LTV Mortgage Program Has Been Hindered by FHFA’s Failure to Provide Written Guidance to the Enterprises for Reporting Data; Establish Procedures to Assess the Quality of the Data Received from the Enterprises; and Follow its Own Guidance in 2019 Regarding Periodic Preparation of the 97% LTV Monitoring Dashboards**

The 2014 Staff Memorandum announced that “[t]he Enterprises will provide regular reports to FHFA on loan delivery volumes, loan performance, and average credit parameters. In addition to serving as a monitoring tool, these reports will help FHFA develop future policy adjustments, as needed.” We determined that FHFA did not provide formal written guidance to the Enterprises regarding the specific data elements to be reported. Further, FHFA did not establish procedures to assess the quality of the data received from the Enterprises.

### ***OHRP’s Lack of Formal Written Guidance for Collecting and Assessing Data on the Enterprises’ 97% LTV Mortgage Programs Resulted in Incomplete Reporting and Raises the Question of Whether Consistent Oversight Has Been Performed***

OHRP maintains that monitoring dashboards are an important part of its oversight of the Enterprises 97% LTV mortgage programs.

According to the Green Book, management should use quality information to achieve the entity’s objectives. Among the attributes for this internal control principle, management “identifies the information requirements” needed and “obtains relevant data from reliable internal and external sources in a timely manner,” “evaluates both internal and external sources of data for reliability,” “processes the obtained data into quality information” (information that is appropriate, current, complete, accurate, accessible, and provided on a timely basis), and “uses the quality information to make informed decisions.”

FHFA’s 2014 Staff Memorandum called for the Enterprises to provide regular reporting to FHFA on loan delivery volumes, loan performance, and average credit parameters. Neither the 2014 Staff Memorandum nor the monitoring guidelines first outlined in the 2019 OHRP Policy Review Process define the specific data elements to be reported by the Enterprises, nor establish procedures to assess the quality of the data received from the Enterprises. While we understand from OHRP that it has provided informal guidance through oral communication and emails to the Enterprises on reporting for the 97% LTV mortgage programs, we found no formal written guidance issued by OHRP to the Enterprises on the specific data elements to report monthly.

Until March 2019, FHFA had not issued written guidance on the monitoring to be conducted of the Enterprises’ 97% mortgage programs.



OHRP prepared 97% LTV Monitoring Dashboards from data submitted by the Enterprises for each month of 2017 and for 10 months of 2018, but the dashboards were often inconsistent and incomplete in terms of what was reported and what was not reported by either Enterprise because there was no written guidance provided by FHFA on the specific data elements to report. In addition, OHRP’s review of the reported data was less than robust: it failed to timely identify the lack of data by one Enterprise, or of incomplete data submitted by the other Enterprise. Two examples are illustrative:

- One Enterprise did not submit any data to FHFA on its 97% LTV mortgage programs for four months (January 2017, August 2017, January 2018, and February 2018) a 28.6% omission rate. Once OHRP discovered that it was missing four months of data over fourteen months, it notified the Enterprise and the Enterprise submitted the monthly data on a going forward basis, beginning with its March 2018 report.
- The other Enterprise submitted 97% LTV mortgage acquisition data only for FTHBs for 18 months (January 2017 to June 2018) but did not submit 97% LTV mortgage acquisition data on borrowers who were not FTHBs (representing approximately 12% of the Enterprise’s total 97% LTV mortgage acquisitions) during that same period. Once OHRP discovered the omissions, it notified the Enterprise in July 2018, and the Enterprise submitted monthly data for all borrowers on a going forward basis.

In March 2019, OHRP issued guidelines for the preparation of 97% LTV Monitoring Dashboards. Those guidelines provide that an OHRP policy analyst “reviews Enterprise reports periodically (such as, monthly for 97% LTV performance...)” and “prepares a periodic summary analysis highlighting trends and any concerns.” OHRP, however, did not follow its own guidelines. It prepared only two 97% LTV Monitoring Dashboards for the 97% LTV mortgage programs, for April and November 2019, as of May 2020. OHRP officials maintained that resource utilization decisions and other priorities (e.g., issuing Enterprise directives, preparing Scorecard guidance, responding to Director initiatives, etc.) caused OHRP to lack the resources needed to regularly prepare monthly dashboards during 2019.

These shortcomings – preparing only two monthly 97% LTV Monitoring Dashboards for 2019 and preparing dashboards for 2017 and 2018 based on incomplete and inconsistent data – demonstrate a lack of consistent oversight by FHFA of the Enterprises’ 97% LTV mortgage programs.

In its technical comments to a draft of this report, FHFA contends that its guidelines, which state that an OHRP policy analyst “reviews Enterprise reports periodically (such as, monthly for 97% LTV performance...)” and “prepares a periodic summary analysis highlighting trends and any concerns” do not mean what they say. According to FHFA, OHRP expected its policy analyst to review Enterprise reports on a monthly basis but did not expect that analyst to



“*produc[e] dashboards* on a monthly basis.” (emphasis added). These guidelines set forth the analyst’s obligations – to review Enterprise reports and prepare periodic summary analyses – on a periodic basis, which the guidelines define as “monthly for 97% LTV performance”. Even accepting FHFA’s labored interpretation of its guidelines as accurate, the term “periodic” is commonly understood as occurring or recurring at regular intervals.<sup>10</sup> Here, OHRP completed two 97% LTV Monitoring Dashboards for April 2019 in September 2019 and for November 2019 in February 2020 which, in our view, does not meet this definition.

For the first time, FHFA maintains in its technical comments, OHRP prepared a 97% LTV Monitoring Dashboard for December 2019 and provided that dashboard to us with its comments. According to that 97% LTV Monitoring Dashboard, it was not completed until July 2020, seven months after the month for which it was prepared. Significant delays by OHRP in completing dashboards for a particular month increase the risk that trends in important performance indicators, like SDQ rates, will not be brought to the attention of FHFA decision makers in a timely manner.

### **While the 2014 Staff Memorandum Contemplated that FHFA Would Use Information from the Enterprises’ Reports on the 97% LTV Mortgage Programs and Take Appropriate Steps, Policy Changes by FHFA Were Based on Other Policy Monitoring Activities**

During our review period, we found that FHFA made adjustments to the Enterprises’ 97% LTV mortgage programs based on OHRP policy governance and policy surveillance activities,<sup>11</sup> and we recognize that FHFA has authority to make such adjustments. However, we found no evidence that these adjustments were driven by OHRP’s analysis of the data provided by the Enterprises in the reports on loan delivery volumes, loan performance, or average credit parameters as contemplated in the 2014 Staff Memorandum and aggregated in the 97% LTV Monitoring Dashboards.

In June 2017, for example, FHFA issued a directive to prohibit the funding of down payment assistance through a higher mortgage interest rate on single-family mortgage loans based on a written OHRP staff analysis that reported “OHRP . . . has become aware of the growing lender practice of using premium pricing to finance down payment assistance.” The OHRP staff analysis concluded that this could expose the Enterprises to additional credit risk for several reasons, including higher borrower monthly mortgage payments and less down payment that has been funded by the borrower. So, too, FHFA issued other directives in

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<sup>10</sup> See definition online at: <https://www.merriam-webster.com/dictionary/periodic>.

<sup>11</sup> OHRP policy governance refers to OHRP’s review of credit related policy and other Enterprise submissions or matters requiring FHFA conservator decision or notification. Policy surveillance refers to OHRP’s review of certain Enterprise credit related reports, including variances, waivers, and exceptions.

December 2018 to tighten borrower requirements related to income limits for certain 97% LTV mortgage products, prohibit ownership of more than two properties at the same time with 97% LTV mortgages, and strengthen homeownership education requirements.

Even though OHRP did not propose changes to the 97% LTV programs based on its analysis of monthly data submitted by the Enterprises, its records show that OHRP staff met with the Enterprises to discuss policy issues related to the 97% LTV mortgage programs, reviewed Enterprise proposed changes to policies, variances, and exceptions, and prepared analyses documenting its rationale for recommending whether proposed changes should be approved.

## FINDINGS .....

- OHRP failed to define measurable objectives and establish risk tolerances for the Enterprises' 97% LTV mortgage programs.
- OHRP did not provide written guidance to the Enterprises for reporting data nor establish procedures to assess the quality of the data it receives from the Enterprises.
- OHRP did not follow its guidelines in 2019 regarding periodic preparation of the 97% LTV Monitoring Dashboards.

## CONCLUSIONS .....

We found weaknesses in the process to monitor the Enterprises' 97% LTV mortgage programs that may hinder FHFA's 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. Accordingly, FHFA's claims of program success could not be assessed. 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 it receives from the Enterprises resulting in monitoring reports that were frequently based on incomplete or inconsistent data. Finally, we determined that FHFA did not follow its own guidelines regarding the frequency of 97% LTV Monitoring Dashboard preparation during 2019: as of May 2020, it prepared only two 97% LTV Monitoring Dashboards for 2019. Such weaknesses, along with policy changes initiated by FHFA based on OHRP policy governance and policy surveillance activities other than the 97% LTV Monitoring Dashboards, call into question whether the oversight contemplated by the 2014 Staff Memorandum has been consistently performed.

## RECOMMENDATIONS.....

We recommend that FHFA:

1. 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.
2. Ensure that 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.
3. 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.

## FHFA COMMENTS AND OIG RESPONSE.....

We provided FHFA an opportunity to respond to a draft report of this audit. FHFA provided technical comments on the draft report and those comments were considered in finalizing this report. FHFA also provided a management response, which is included in the Appendix to this report. In its response, FHFA disagreed with recommendation 1; disagreed with recommendation 2 but provided an alternative approach; and agreed with recommendation 3. FHFA's comments and our responses are summarized below.

### ***FHFA Comments to Recommendation 1***

DHMG disagreed with our recommendation and stated that it has previously considered and rejected this type of approach (i.e., establishing measurable objectives and risk tolerances for the Enterprises' 97% LTV mortgage programs) in favor of evaluating these programs within the larger context of the Agency's "holistic regulation of Enterprise risk." DHMG acknowledged that establishing specific risk tolerances reflects one way to identify potential risk issues. However, DHMG determined that a risk tolerances approach to the Enterprises' 97% LTV mortgage programs would not provide the flexibility needed to adjust for unexpected events (e.g., natural disasters and market disruptions/downturns), changes in the macroeconomic environment affecting the mix of business (e.g., purchase vs. refinance), or shifts in strategic direction to meet statutory obligations such as the affordable housing goals.

FHFA stated that it leverages the Policy Engagement Model (PEM)<sup>12</sup> to oversee the 97% LTV mortgage programs as part of developing a holistic view of 97% LTV related activities, which includes analysis using data and information from various channels including policy surveillance and governance. In addition, FHFA noted that each Enterprise must operate its 97% LTV program within the risk management and adjusted return requirements of the Conservatorship Capital Framework (CCF),<sup>13</sup> which provides an overall risk measurement tool designed to evaluate Freddie Mac's and Fannie Mae's risk management and business decisions. FHFA believes that the CCF, coupled with Enterprise-established and FHFA-approved management and board risk limits, provides a structure that puts risk management and business decisions appropriately in the hands of Enterprise management, while enabling FHFA to prudently monitor and assess these programs.

OIG Response. Based on our review of FHFA's lack of rigorous monitoring during our review period, we concluded that FHFA's oversight of the Enterprises' 97% LTV mortgage programs would be strengthened by establishing specific risk tolerances. Because FHFA has made a management decision not to do so, we consider this recommendation as closed, rejected.

#### ***FHFA Comments to Recommendation 2***

FHFA disagreed with our recommendation to issue specific guidance regarding 97% LTV program reporting but agreed that FHFA needs to improve the reliability of the Enterprise information used to oversee these programs. To achieve this reliability, FHFA stated that it is working to reduce its reliance on Enterprise management reporting for the 97% LTV Monitoring Dashboards by leveraging Enterprise loan-level data from the Mortgage Loan Integration System (MLIS) database and reporting associated with the CCF. OHRP requested additional staffing levels in Fiscal Year 2021 to accomplish this task and plans to utilize MLIS for the majority of the 97% LTV Monitoring Dashboard data analysis by the end of 2021. FHFA believes that its data validation activities associated with MLIS will improve the reliability of the resulting analyses.

OIG Response. We consider FHFA's plan to leverage Enterprise loan-level data from the MLIS database and reporting associated with the CCF with a goal of utilizing MLIS for the majority of the 97% LTV Monitoring Dashboard data analysis to be responsive to the intent of our recommendation. Given the importance of MLIS data validation activities to the success of this alternative approach, we plan to periodically assess FHFA's progress on this

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<sup>12</sup> The PEM consists of four core components that, according to FHFA, are designed to ensure visibility into the Enterprises' credit-related policies and activities. The four core components are: (1) Policy Governance, (2) Policy Surveillance, (3) Policy Development, and (4) Policy Monitoring.

<sup>13</sup> The CCF establishes the FHFA benchmarks for measuring risks and returns of the Enterprises' assets and evaluating the Enterprises' business decisions during conservatorship.

project.<sup>14</sup> Since FHFA’s alternative approach is not expected to be complete until the end of calendar year 2021, we urge FHFA to set and communicate clear expectations for the Enterprises’ reporting to FHFA on their 97% LTV mortgage programs and to continually assess the quality of data used to monitor the Enterprises’ 97% LTV mortgage programs during the interim period.

### ***FHFA Comments to Recommendation 3***

FHFA agrees with this recommendation and noted that OHRP will clarify expectations for policy monitoring reporting, including guidance on reporting frequency, in its Review Process Document. OHRP will reinforce its expectations by sharing OHRP’s updated Review Process Document with staff and by publishing it on OHRP’s Gateway site. OHRP also plans to set up quality assurance processes to ensure policy monitoring reporting (e.g., monitoring dashboard or other such reporting).

OIG Response. We consider FHFA’s planned corrective actions responsive to the recommendation. In following up on FHFA’s management response to this report, an FHFA official told us that a firm target date for completing all planned corrective actions will be established after October 30, 2020.

## **OBJECTIVE, SCOPE, AND METHODOLOGY .....**

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 occurred during the period January 1, 2017, through December 31, 2019.

To address our objective, we:

- Researched and identified applicable laws, regulations, and other guidance that relate to FHFA’s oversight of the Enterprises’ 97% LTV mortgage programs, including:

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<sup>14</sup> A March 2019 OIG audit of Fannie Mae mortgage purchases included tests using Fannie Mae’s single-family acquisition data in MLIS. In performing those tests, we found instances where data fields for the selected credit terms either were missing information or were shown as “unknown.” The largest instance – more than 10% of single-family acquisitions during our review period – was the MLIS data field for the property valuation method. We made one recommendation to FHFA to address this issue. See OIG, *Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017* (Mar. 27, 2019) (AUD-2019-006) (online [here](#)). FHFA completed corrective action for the recommendation and we closed it in September 2019.

- FHFA, *Staff Analysis: 97% Loan-to-Value First-Time Home Buyer Loan Program* (Dec. 3, 2014) (2014 Staff Memorandum)
- FHFA, *OHRP Policy Review Process* (June 30, 2016 and subsequent versions)
- GAO, *Standards for Internal Control in the Federal Government* (Sept. 2014) (Green Book)
- Reviewed prior OIG reports on FHFA’s oversight of the Enterprises’ 97% LTV mortgage programs and related topics:
  - OIG, *An Overview of Enterprise Debt-to-Income Ratios* (Mar. 27, 2019) (WPR-2019-002) (online [here](#))
  - OIG, *Update on FHFA’s Implementation of its Revised Procedures for Overseeing the Enterprises’ Single-Family Mortgage Underwriting Standards and Variances* (Mar. 27, 2018) (COM-2018-003) (online [here](#))
  - OIG, *Audit of FHFA’s Oversight of Fannie Mae’s Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV* (Mar. 8, 2018) (AUD-2018-003) (online [here](#))
  - OIG, *Audit of FHFA’s Oversight of Freddie Mac’s Compliance with the Required Risk Mitigants of Automated Underwriting, Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV* (Mar. 8, 2018) (AUD-2018-004) (online [here](#))
  - OIG, *Compliance Review of FHFA’s Implementation of Its Procedures for Overseeing the Enterprises’ Single-Family Mortgage Underwriting Standards and Variances* (Dec. 17, 2015) (COM-2016-001) (online [here](#))
- Interviewed FHFA officials and reviewed existing policies and procedures to gain an understanding of FHFA’s monitoring of the Enterprises’ 97% LTV mortgage programs to determine whether FHFA had:
  - Implemented control activities through policies to ensure that it uses quality data to achieve the entity’s objectives;
  - Implemented control activities through policies to ensure that the data is processed into quality information that supports the internal control system; and,
  - Defined objectives clearly to enable the identification of risks, define risk tolerances and design risk responses.

- Reviewed the 97% LTV mortgage program and loan performance reports prepared by the Enterprises and submitted to FHFA to determine whether they were provided to FHFA regularly and included the information pursuant to the December 2014 Staff Memorandum. We assessed the Enterprise reports provided to FHFA, compared them to the Enterprises' public filings, and made inquiries of Enterprise and FHFA officials regarding the nature of the Enterprise reports to determine whether they contained complete, reliable data. We noted that the 97% LTV mortgage program and loan performance reports prepared by the Enterprises and submitted to FHFA were at times incomplete or not relevant for FHFA's monitoring purposes; however, after obtaining supplemental reports of 97% LTV mortgage acquisitions from the Enterprises and analyzing the entire range of reports provided to FHFA, we determined that the data was sufficiently reliable to allow us to report on loan volume, delinquency rates, and credit parameters.
- Reviewed the 97% LTV Monitoring Dashboards prepared by OHRP during our review period for evidence of review and compared them to Enterprise data reports to assess accuracy and consistency for loan counts and specific key risk credit parameters of the Enterprises' 97% LTV loans and total acquisitions, including average credit scores, DTI ratios, and delinquency rates.
- Obtained and reviewed other evidence of FHFA monitoring of the Enterprises' 97% LTV mortgage programs, including directives issued to the Enterprises by the Agency related to those programs, and documentation of supervisory activities performed by FHFA's DER during our review period.

We conducted this performance audit from January 2020 to September 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



## APPENDIX: FHFA MANAGEMENT RESPONSE.....



### Federal Housing Finance Agency

#### MEMORANDUM

TO: Marla A. Freedman, Deputy Inspector General for Audits

FROM: Sandra Thompson, Deputy Director, Division of Housing Mission and Goals (DHMG)

SUBJECT: Draft OIG Report: *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*

DATE: September 17, 2020

SANDRA THOMPSON  
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Digitally signed by SANDRA THOMPSON  
Date: 2020.09.17 10:43:14 -0400

Thank you for the opportunity to review the draft audit report referenced above (Report). The audit assessed the Agency's monitoring processes for the Enterprises' 97% LTV mortgage programs and reviewed the Enterprise data on loan delivery volumes, loan performance, and average credit parameters during the period January 1, 2017, through December 31, 2019.

DHMG's Enterprise policy development and oversight activities are defined in the Policy Engagement Model (PEM), a component of the 2017 Letter of Instruction. The PEM provides transparency to the Enterprises' single-family credit-related policies and activities by leveraging various oversight activities, including the following: 1) policy governance, 2) policy surveillance, 3) policy development, and 4) policy monitoring. These four oversight activities reflect the Office of Housing Regulatory Policy's (OHRP) multifaceted approach towards the oversight of Enterprise policies and help inform potential future policy changes or enhancements. We would like to clarify a few items discussed in the Report.

First, DHMG's primary responsibilities include overseeing and coordinating FHFA activities regarding market surveillance, systemic risk monitoring, and policy development in support of FHFA's mission. By extension, OHRP and other offices in DHMG recommend, when appropriate, the application of triggers when evaluating and overseeing specific policy matters. After thoughtful consideration of the Enterprises' 97% LTV mortgage programs, OHRP, in consultation with DHMG leadership, determined that defining specific limits, targets, or triggers would not be the best way to conduct oversight of these programs, but would instead rely on staff analysis using data and information from various channels, including PEM activities (i.e., policy development; policy governance; policy monitoring and policy surveillance), to escalate areas of concern related to the Enterprises' 97% LTV mortgage programs, mirroring the process of escalations discussed in the Conservatorship Decision Policy.

Second, the OIG findings related to missing or incomplete data were discovered and remedied by OHRP staff coordinating with the Enterprises. The follow-up and remediation demonstrated that the monitoring process worked. However, as discussed more fulsomely in the response to



Recommendation No. 2, OHRP has identified enhancements to improve the reliability of Enterprise data reporting.

Finally, OHRP's 97% LTV policy monitoring led to multiple important findings including FHFA's awareness of the Enterprises' growing 97% LTV programs and the declining housing goals contributions from such programs, which resulted in policy adjustments. The audit cites an adjustment to, "...tighten borrower requirements related to income limits for certain 97% LTV mortgage products..." but cites this as an example of monitoring failure because such issues were not discussed in the 97% LTV monitoring dashboards. OHRP does not solely rely on the Enterprises' management reporting of their 97% LTV mortgage programs and related FHFA monitoring dashboards. DHMG complements this work with other oversight activities described in the PEM, such as policy governance and policy surveillance, as well as through monitoring of Conservatorship Capital Framework (CCF) reports and other risk metrics. The PEM enables OHRP to utilize a multifaceted oversight approach that incorporates a holistic view of 97% LTV related activities. Issues are identified and escalated, as appropriate, often with recommended policy adjustments. For example, OHRP utilized the Variances, Waivers, and Exceptions reporting, a policy surveillance activity, to identify areas of concern related to the Enterprises' 97% LTV mortgage programs. The Report concludes that the policy changes were based on other sources but did not consider that these sources are part of OHRP's overall efforts to monitor the 97% LTV programs. Changes made to the 97% LTV programs over the years demonstrate OHRP's diligence and oversight of the Enterprises through multiple risk management observations.

Management's response to the Report's three recommendations are below:

**Recommendation 1:** *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.*

**Management Response:** FHFA disagrees with this recommendation, as DHMG has previously considered and rejected this type of approach in favor evaluating these programs within the larger context of the Agency's holistic regulation of Enterprise risk. However, we recognize the importance of a comprehensive oversight framework to monitor policies for the purposes of identifying risk issues and taking appropriate action to further FHFA's mission and the objectives of Conservatorship. Establishing specific risk tolerances reflects one way to identify potential risk issues. However, for purposes of the Enterprises' 97% LTV mortgage programs, DHMG determined that a risk tolerances approach would not provide the flexibility needed to adjust for unexpected events (e.g., natural disasters and market disruptions/downturns), changes in the macroeconomic environment affecting the mix of business (e.g., purchase vs. refinance), or shifts in strategic direction to meet statutory obligations such as the affordable housing goals.

As noted, FHFA instead leverages the PEM, a component of the 2017 Letter of Instruction, to oversee these mortgage programs as part of developing a holistic view of 97% LTV related activities. Consistent with the PEM, staff perform analysis using data and information from various channels, including policy surveillance and governance, to escalate areas of concern related to the Enterprises' 97% LTV mortgage programs, mirroring the process of escalations discussed in the Conservatorship Decision Policy. OHRP on multiple occasions identified areas of concerns related to the Enterprises' 97% LTV mortgage programs, escalating such concerns, resulting in various updates to the Enterprises 97% LTV mortgage programs.

In addition, while in conservatorship, each Enterprise must operate its 97% LTV program within the risk management and adjusted return requirements of the CCF, which provides an overall risk measurement tool designed to evaluate Freddie Mac's and Fannie Mae's risk management and business decisions. FHFA believes that the CCF, coupled with Enterprise-established and FHFA-approved management and board risk limits, provides a structure that puts risk management and business decisions appropriately in the hands of Enterprise management, while enabling FHFA to prudently monitor and assess these programs. For example, the CCF considers loan characteristics (including but not limited to LTV, FICO, loan purpose, loan term) when assessing capital requirements. To the extent there is a required minimum Return on Conservatorship Capital (ROCC), a meaningful volume of high LTV acquisitions would increase the total capital requirement across all new acquisitions and reduce the ROCC. Reducing the potential value of FHFA-established limits on individual loan product purchases, the CCF effectively imposes capital requirements for each loan purchased and an overall ROCC—both of which FHFA monitors on a regular basis.

**Recommendation 2:** *Ensure that 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.*

**Management Response:** FHFA disagrees with the recommendation to issue specific guidance regarding 97% LTV program reporting. However, we agree that we need to improve the reliability of the Enterprise information use to oversee these programs. To achieve that, FHFA is working on reducing its reliance on Enterprise management reporting for the 97% LTV dashboards. Medium-term plans include leveraging Enterprise loan-level data from the Mortgage Loan Integration System (MLIS) database and reporting associated with the CCF. OHRP plans to utilize MLIS for the majority of the 97% LTV dashboard data analysis by the end of 2021; additional staffing levels in Fiscal Year 2021 have been requested to accomplish this task by the end of calendar year 2021. We believe the FHFA's data validation activities associated with MLIS will improve the reliability of the resulting analyses.

**Recommendation 3:** *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.*

**Management Response:** FHFA agrees with this recommendation. ORHP will clarify expectations for policy monitoring reporting, including guidance on reporting frequency, in its Review Process Document. We will reinforce our expectations by sharing OHRP's updated Review Process Document with staff and by publishing on OHRP's Gateway site. We will also set up quality assurance processes to ensure policy monitoring reporting (e.g., monitoring dashboard or other such reporting).

We would like to thank the OIG staff for their work on this audit. If you have any questions related to our responses, please contact Maria Fernandez.

cc: Chris Bosland  
Kate Fulton  
Moji Adelekan  
John Major

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